

Economic Policy Reform and Competitiveness Project

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Regulatory Cost Accounting Manual

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ABBREVIATIONS AND ACRONYMS

EPRC	Economic Policy Reform and Competitiveness Project
ERA	Energy Regulatory Authority of Mongolia
IAS	International Accounting Standard
IFRS	International Financial Reporting Standard
IASC	International Accounting Standard Committee
IASB	International Accounting Standard Board
USOA	Uniform System of Accounts
CES	Central Energy System
EES	Eastern Energy System
WES	Western Energy System
PP	Power Plant
NDC	National Dispatching Center
MOFE	Ministry of Finance and Economy
AD	Accumulated Depreciation
ROI	Return on Investment
WACC	Weighted Average Cost of Capital

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SECTION I: INTRODUCTION

This manual is intended for the use of energy sector licensees in the implementation of a cost accounting system to support the development of cost-based revenue requirements for tariff-making purposes. The Uniform System of Accounts (USOA) presented herein will enable licensees to record, maintain and report financial data in the manner mandated by the Energy Regulatory Authority of Mongolia (ERA) for such purposes, while maintaining the ability to meet all other local financial and tax reporting requirements.

Licensees are encouraged to utilize required sub-accounts and/or account prefixes to accommodate management accounting and additional information needs.

The USOA is in conformity with International Accounting and Financial Reporting Standards (IAFRS) as required by the Accounting Law of Mongolia. Implementation of the USOA will further advance the utilization of IAFRS in the energy sector, thus bringing the licensees in conformity with currently existing laws. A brief summary of IAFRS is included in this manual to provide a quick reference source for users.

The USOA is also in conformity with the chart of accounts coding scheme developed by the Ministry of Finance and Economy (MOFE), and has been submitted to the MOFE for formal approval.

Materials contained herein were presented to Licensee and ERA personnel in a series of workshops held in the spring of 2004.

This product was developed by Economic Policy Reform and Competitiveness Project, under the auspices of USAID, with the support of Ulaanbaatar Audit Corporation, a local auditing company.

SECTION II: UNIFORM SYSTEM OF ACCOUNTS AND INSTRUCTION

A. Authorization and Intent

This Uniform System of Accounts (USOA) is issued under the authority of the Energy Regulatory Authority (ERA), in accordance with the power afforded it by the Law of Mongolia on Energy (Energy Law). The USOA is intended to support consistency in regulation of the energy sector of Mongolia, and will be relied upon to support the development of cost-based tariffs for each Licensee.

Under the law, Licensees are obligated:

- To keep financial and accounting records for each licensed activity, separately from records of activities not specified in the license;
- To submit audited financial statements to the ERA every year; and
- To provide accurate information required by the licensor necessary to evaluate technical and economic performance of the licensee, on a timely basis.

The coding scheme is essential for the purpose of developing uniform reporting system of accounting. Following information was the basis for developing the USOA:

- Model Chart of Accounts and Instructions approved by the ordinance no. 116 of the Minister of Finance and Economy from 2000;
- Current chart of accounts used by the following licensees: CES Transmission Network, UB Electricity Distribution Network, UBPP-2, UBPP-4 and NDC;

The licensees' needs and requirements were considered to develop this USOA. The ERA will use only the main coding (first 5 digits) for purposes of regulating and analyzing financial information submitted by the licensees. On the other hand, management of the licensees will use sub-accounts for their decision-making purposes.

B. Records and Books of Account

Each licensee shall keep its books of account, and all other books, records, and memoranda, which support the entries in such books of account so as to be able to readily furnish full information as to any item, included in any account, to the ERA at their request. Each entry shall be supported by such detailed information as will permit ready identification, analysis and verification of all facts relevant thereto.

The books and records referred to herein include not only accounting records in the technical sense, but all other records which may be useful in developing the history of or facts relating to any transaction. This includes, but is not limited to: material supply contracts, invoices, payment records, receipts, inventory records and other supporting documentation.

All licensees are required to maintain their books and records in accordance with the Accounting Law of Mongolia, International Financial Reporting Standards (IFRS) and the USOA with instructions to be approved by the ERA.

No alterations or deletions are permitted to the accounts as presented herein. Licensees may, at their discretion, develop relevant sub-accounts as deemed necessary to support ongoing business activities. The accounts as presented are not intended to limit Licensees' capability to maintain adequate books and records for purposes of preparing required tax statements, annual consolidated financial statements for presentation to owners and/or creditors, nor the ability to maintain a functional management accounting system.

Licensees are required to maintain sub-ledgers and other relevant documentation as indicated. Licensees are further encouraged to maintain additional sub-ledgers and sub-accounts sufficient to enable presentation of information in a more detailed manner.

Only expenses and revenues related to the Licensee's core business (e.g. electricity distribution) are to be reflected in the accounts and presented for tariff calculation. All expenses and revenues related to activities other than those provided for under the Licensee's core business are to be accounted for either in Account Coding 84 and 87, or, more appropriately, non-core business activities should be transferred out of the Licensee's corporate structure.

Electricity and heat generators are required to maintain accounting and technical information systems adequate to facilitate the calculations required to properly allocate costs between electricity and heat generation; also to further allocate costs of each between fixed and variable. Requirements for these allocations are presented in the Tariff Methodology and the Fuel Allocation Methodology by the ERA.

Where exemplar lists are set forth in these instructions and guidelines, the lists are solely for the purpose of more clearly indicating the application of the prescribed accounting. The lists are intended to be representative, but not exhaustive.

Highlighted Instructions

1. Receivables and Sales Revenue accounts

Customer classifications are required as indicated to permit the development of tariffs appropriate to individual customer classes in accordance with the demands of the energy law. Therefore, receivables and revenue accounts need to be recorded in detail with customer classifications. Following customer classes were used in the USOA;

- Residential Customers
- Commercial Customers
- Industrial Customers
- Budgetary Bodies
- Transmission Licensee
- Distribution Licensee.

Further, the distribution receivable and revenue accounts are classified into voltage levels as 400V, 10/6KV, and 35KV. The accounts for the transmission licensees consist of capacity, energy, and heat categories for the purpose of implementing two-part tariff methodology.

2. Non-current Asset

Detailed list of the asset accounts are designed to be used by all the licensees in the energy sector.

3. Intangible Asset

Cost of intangible assets and corresponding accumulated depreciations are to be shown separately according to the IAS; rather than the historic Mongolian practice of presenting the information as a net amount (directly reduce the cost by depreciation).

4. Operating Expenses

Overall operating expenses include the following categories;

- Cost of Goods Sold
 - Energy Related Expenses
 - Operations Expense
 - Maintenance Expense
- Administrative Expense
- Selling Expense
 - Billing and Collections Expense

Above cost categories enable the ERA to control and compare cost information submitted by the licensees.

C. Accounting for Government Grants and Subsidies

Government grants and/or subsidies received by an entity owned either in whole or in part by the government or its representatives are viewed as contributions to owner's equity and are to be directly credited to the corresponding equity account.

Government grants received by a privately owned entity are to be capitalized and recognized as income over the period necessary to match them with the related costs for which the grants are intended to compensate.

D. Definitions

Property, Plant and Equipment: Those items, both tangible and intangible, that are held by an enterprise for use in production or supply of goods, or for administrative purposes, that are intended to be in use for more than one period.

Depreciation: The systemic allocation of the depreciable amount of an asset over its useful life.

Depreciable Amount: The cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

Residual Value: The net amount, which the enterprise expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.

Useful Life: Either the period of time over which an asset is expected to be used by the enterprise, or the number of production or similar units expected to be obtained from the asset by the enterprise.

Core Business: Activities required accomplishing the business as defined in the License issued by the ERA of Mongolia.

Cost: The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

Fair Value: The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Impairment Loss: The amount by which the carrying amount of an asset exceeds its recoverable amount.

Carrying Amount: The amount at which an asset is recognized in the balance sheet after deducting any accumulated depreciation and accumulated impairment losses thereon.

Cost of Disposal: The cost of demolishing, dismantling, tearing down or otherwise removing plant, including the cost of transportation and handling incidental thereto.

Affiliated Companies: Companies or individuals that either directly or indirectly controls, are controlled by, or are under common control of the Licensee.

Government: Government, government agencies and similar bodies whether local, national or international.

Government Assistance: Action by government designed to provide an economic benefit specific to an enterprise or range of enterprises qualifying under certain criteria.

Government Grants: Assistance by government in the form of transfers of resources to an enterprise in return for past or future compliance with certain conditions relating to the operating activities of the enterprise.

Revenue: The gross inflow of economic benefits during the period arising in the course of the ordinary activities of an enterprise when those inflows result in increases in equity, except for those increases relating to contributions from equity participants.

E. Instructions on Chart of Accounts Coding

Minister for Finance & Economy

Ordinance no. 116, 2000

A. Balance Sheet Accounts

Account Titles and Groups	Main Coding	Guidelines for Sub-accounts
One. Assets		
Cash on Hand	10..	Sort by tugrug and other foreign currencies or by clerk names.
Cash in Bank	11..	Sort by each financial institution and further by currencies.
Accounts Receivable	12..	Sort by foreign and domestic receivables, employees, bank interest, bad debt reserve etc.
Short-term Investment	13..	Sort by the short-term investment type such as savings account etc.
Raw Materials	14..	Sort by raw material types.
Work-in-progress	14..	Sort by production and product types.
Finished Goods	15..	Sort by product type.
Materials and packaging	15..	Sort by clerks.
Fuel and petroleum	15..	Sort by liquid and non-liquid.
Components and parts	15..	Sort by type.
Livestock	15..	Sort by type of livestock and herder.
Uniforms, other material	15..	Sort by type.
Prepayments	18..	Sort by prepayment and prepaid expense type.
Non-current Assets	20..	Sort by building, property, plant equipment furniture and fixtures, vehicles etc.
Intangible assets	21..	Sort by type.
Investment	22..	Sort by type.
Two. Liabilities and Equity		
Current liability	31..	Sort by vendors, social insurance, employees, payroll, taxes, etc.
Non-current liability	32..	Sort by type.
Equity	41..	Sort by common stock, additional paid in capital, retained earnings, current year profit etc.

...continued

B. Income Statement Accounts

Sales Revenue	51..	Sort by type.
Sales Discount	52..	Sort by returns, allowances and discount types.
Cost of Goods Sold	61..	Sort by goods sold.
Administrative Expense	70..	Sort by payroll, bonus, discounts, benefits, pension, travel, communication, utilities etc.
Selling Expense	71..	Sort by payroll, bonus, discounts, benefits, pension, travel, communication, utilities etc.
Non-operating Revenue	84..	Sort by interest, dividend, exchange rate gain etc.
Non-operating Expense	87..	Sort by interest, dividend, exchange rate gain etc.
Income Tax Expense	91..	
Income Summary	92..	

F. Structure of the Uniform System of Accounts

Balance Sheet Accounts	Code
Current Asset	
Cash on hand	10000
Cash in Bank	11000
Receivables	12000
Short-term Investments	13000
Inventory	14000
Prepayments	18000
Non-current Assets	
Productions Assets	20000
General Assets	
Accumulated Depreciation	
Intangible Assets	21000
Accumulated Depreciation	
Long-term Investments	22000
Liabilities	
Current Liabilities	31000
Non-current Liabilities	32000
Equity	41000
Income Statement Accounts	
Revenue	
Sale Revenue	51000
Sales Returns and Allowances	52000
Expenses	
Cost of Goods Sold	61000
Energy Related Expenses	
Operations Expenses	
Maintenance Expenses	
Administrative Expenses	70000
Selling Expenses	71000
Billing and Collection Expenses	
Non-operating Revenues	84000
Non-operating Expenses	87000
Income Tax Expense	91000
Income Summary	92000

**Energy Regulatory Authority
Uniform System of Accounts
Account Title and Numbering Scheme**

1. BALANCE SHEET ACCOUNTS

Current Assets

Additional Minimum Requirements

Cash on Hand	10000		
	10100	Mongolian Togrog	Appropriate sub-accounts as desired
	10200	US Dollar	Appropriate sub-accounts as desired
	10300	Euro	Appropriate sub-accounts as desired
	10400	Other	Appropriate sub-accounts as desired
Cash in Bank	11000		
	11100	Mongolian Togrog	Appropriate sub-accounts as desired
	11200	US Dollar	Appropriate sub-accounts as desired
	11300	Euro	Appropriate sub-accounts as desired
	11400	Other	Appropriate sub-accounts as desired

Uniform System of Accounts

Receivables	12000		
	12110	Receivables from Residential Customers	Sub-ledger required
	12120	Receivables from Commercial Customers	Sub-ledger required
	12121	Receivables from 400 V Commercial Customers	
	12122	Receivables from 10/6 KV Commercial Customers	
	12130	Receivables from Industrial Customers	Sub-ledger required
	12131	Receivables from 400 V Industrial Customers	
	12132	Receivables from 10/6 KV Industrial Customers	
	12133	Receivables from 35 KV Industrial Customers	
	12140	Receivables from Budgetary Bodies	Sub-ledger required
	12210	Receivables from Transmission Licensees	Sub-ledger required
	12211	Capacity Sales to Transmission Licensees	
	12212	Energy Sales to Transmission Licensees	
	12213	Heat Sales to Transmission Licensees	
	12220	Receivables from Distribution Licensees	Sub-ledger required
	12310	Employee Advances Other Than Payroll	Sub-ledger required
	12320	Employee Payroll Advances	Sub-ledger required
	12350	Receivables from Administration	Sub-ledger required
	12400	Receivables from Affiliated Companies	Sub-ledger required
	12500	Inter-company receivables	Sub-ledger required
	12600	Receivables from Foreign Entities	Sub-ledger required
	12700	Other Receivables	Sub-ledger required
	12800	Value Added Tax Receivable	Sub-ledger required
	12900	Bad Debt Reserve	

Uniform System of Accounts

Short Term Investments

13000		
13100	Marketable Securities	Sub-ledger required
13200	Notes Receivable	Sub-ledger required
13300	Government Securities	Sub-ledger required
13400	Other Short-term Investments	Sub-ledger required
13500	Current Portion of Long-term Investments	Sub-ledger required
13900	Discounts on Short-term Investments	Sub-ledger required

Inventory

14000		
14110	Fuel Inventory: Coal	Sub-ledger required
14120	Fuel Inventory: Mazut	Sub-ledger required
14200	Major Spare Parts and Components	Sub-ledger required
14300	Tools	Sub-ledger required
14400	Materials and Supplies	Sub-ledger required
14510	Gasoline and Liquid Fuels	Sub-ledger required
14520	Lubricants	Sub-ledger required
14600	Transportation Equipment Supplies	Sub-ledger required
14700	Chemicals	Sub-ledger required
14800	Safety Equipment and Supplies	Sub-ledger required
14900	Other Inventories	Sub-ledger required

Uniform System of Accounts

Prepayments	18000		
	18100	Prepaid Expenses	Sub-ledger required
	18210	Income Taxes	
	18220	Personal Income Taxes Withheld	Sub-ledger required
	18230	Social Security and Health Contributions	Sub-ledger required
	18240	Other Tax Prepayments	Sub-ledger required
	18300	Supplier Prepayments	Sub-ledger required
	18400	Other Prepayments	Sub-ledger required

Uniform System of Accounts

Non-current Assets

Production Assets	20000		
	20100	Land and Land Rights	Detailed Property Records Required
	20200	Buildings, Structures and Improvements	Detailed Property Records Required
	20210	Boiler Plant Equipment	Detailed Property Records Required
	20220	Engines and Engine-driven Generators	Detailed Property Records Required
	20230	Turbines and Generators	Detailed Property Records Required
	20240	Accessory Electrical Equipment	Detailed Property Records Required
	20250	Other Power Plant Equipment	Detailed Property Records Required
	20260	Reservoirs, Dams and Waterways	Detailed Property Records Required
	20270	Roads, Trails and Bridges	Detailed Property Records Required
	20280	Fuel Holders, Producers and Accessories	Detailed Property Records Required
	20290	Diesel Generators	Detailed Property Records Required
	20300	Substation Equipment	Detailed Property Records Required
	20310	Poles, Towers and Fixtures	Detailed Property Records Required
	20320	Overhead Conductors and Devices	Detailed Property Records Required
	20330	Underground Conduit and Piping	Detailed Property Records Required
	20340	Underground Conductors and Devices	Detailed Property Records Required
	20350	Line Transformers	Detailed Property Records Required
	20360	Service Installations	Detailed Property Records Required
	20370	Metering Devices	Detailed Property Records Required
	20380	Installations on Customer Premises	Detailed Property Records Required
	20400	Construction Work in Progress	Detailed Property Records Required

Uniform System of Accounts

General Assets	20500	Land and Land Rights	Detailed Property Records Required
	20510	Structures and Improvements	Detailed Property Records Required
	50520	Office Furniture and Equipment	Detailed Property Records Required
	50530	Transportation Equipment	Detailed Property Records Required
	20540	Warehouse Equipment	Detailed Property Records Required
	20550	Tools, Shop and Garage Equipment	Detailed Property Records Required
	20560	Laboratory Equipment	Detailed Property Records Required
	20570	Power Operated Equipment	Detailed Property Records Required
	20580	Communication Equipment	Detailed Property Records Required
	20590	Other Property, Plant and Equipment	Detailed Property Records Required

Uniform System of Accounts

Accumulated Depreciation

20700	A/D on Property, Plant and Equipment	Sub-ledger required
20710	A/D on Buildings, Structures and Improvements	Sub-ledger required
20720	A/D on Boiler Plant Equipment	Sub-ledger required
20730	A/D on Engines and Engine-driven Generators	Sub-ledger required
20740	A/D on Turbines and Generators	Sub-ledger required
20750	A/D on Accessory Electrical Equipment	Sub-ledger required
20760	A/D on Other Power Plant Equipment	Sub-ledger required
20770	A/D on Reservoirs, Dams and Waterways	Sub-ledger required
20780	A/D on Roads, Trails and Bridges	Sub-ledger required
20790	A/D on Fuel Holders, Producers and accessories	Sub-ledger required
20800	A/D on Diesel Generators	Sub-ledger required
20810	A/D on Substation Equipment	Sub-ledger required
20820	A/D on Poles, towers and Fixtures	Sub-ledger required
20830	A/D on Overhead Conductors and Devices	Sub-ledger required
20840	A/D on Underground Conduit	Sub-ledger required
20850	A/D on Underground Conductor and Devices	Sub-ledger required
20860	A/D on Line Transformers	Sub-ledger required
20870	A/D on Service Installations	Sub-ledger required
20880	A/D on Metering Devices	Sub-ledger required
20890	A/D on Installations on Customer Premises	Sub-ledger required
20900	A/D on Structures and Improvements	Sub-ledger required
20910	A/D on Office Furniture and Equipment	Sub-ledger required
20920	A/D on Transportation Equipment	Sub-ledger required
20930	A/D on Warehouse Equipment	Sub-ledger required
20940	A/D on Tools, Shop and Garage Equipment	Sub-ledger required

Uniform System of Accounts

	20950	A/D on Laboratory Equipment	Sub-ledger required
	20960	A/D on Power Operated Equipment	Sub-ledger required
	20970	A/D on Communication Equipment	Sub-ledger required
	20980	A/D on Other Property, Plant and Equipment	Sub-ledger required
Intangible Assets	21000		
	21100	Goodwill	Detailed Property Records Required
	21200	Patents	Detailed Property Records Required
	21300	Trademarks and Copyrights	Detailed Property Records Required
	21400	Licenses	Detailed Property Records Required
	21500	Computer Software	Detailed Property Records Required
	21600	Deferred Debits and Other Intangible Assets	Detailed Property Records Required
Accumulated Depreciation	21900		Sub-ledger required
	21910	A/D on Goodwill	Sub-ledger required
	21920	A/D on Patents	Sub-ledger required
	21930	A/D on Trademarks and Copyrights	Sub-ledger required
	21940	A/D on Licenses	Sub-ledger required
	21950	A/D on Computer Software	Sub-ledger required
	21960	A/D on Other Intangible Assets	Sub-ledger required

Uniform System of Accounts

Long-term Investments

22000		
22100	Marketable Securities	Sub-ledger required
22200	Investments in Subsidiaries	Sub-ledger required
22300	Other Long-term Investments	Sub-ledger required

Uniform System of Accounts

Current Liabilities

Current Liabilities	31000		
	31100	Trade Payables	Sub-ledger required
	31150	Interest Payable	Sub-ledger required
	31200	Generation Licensees	Sub-ledger required
	31210	Transmission Licensees	Sub-ledger required
	31220	Distribution Licensees	Sub-ledger required
	31230	Dispatch Licensees	Sub-ledger required
	31300	Income Tax Payable	Sub-ledger required
	31400	Payroll Taxes Payable	Sub-ledger required
	31410	Union Taxes Payable	Sub-ledger required
	31420	Customs Taxes Payable	Sub-ledger required
	31430	Social Security and Health Contributions	Sub-ledger required
	31440	Other Taxes Payable	Sub-ledger required
	31490	Value Added Tax Payable	Sub-ledger required
	31500	Dividends Payable	Sub-ledger required
	31600	Payroll	Sub-ledger required
	31700	Short-term Loans	Sub-ledger required
	31710	Short-term Notes Payable	Sub-ledger required
	31800	Current Portion of Long-term Liabilities	Sub-ledger required
	31900	Other Current Liabilities	Sub-ledger required

Uniform System of Accounts

Non-Current Liabilities

Non-current Liabilities

32000		
32100	Long-term Notes Payable	Sub-ledger required
32200	Long-term Loans Payable	Sub-ledger required
32300	Bonds Outstanding	Sub-ledger required
32310	Unamortized Premium or Discount on Bonds	Sub-ledger required
32400	Deferred Credits and Other Non-current Liabilities	Sub-ledger required

Equity

Equity

41000		
41100	Common Shares Issued and Outstanding	Sub-ledger & investor records
41110	Preferred Shares Issued and Outstanding	Sub-ledger & investor records
41120	Treasury Shares	Sub-ledger required
41130	Additional Paid-in Capital	Sub-ledger required
41200	Appropriated Retained Earnings/Losses	
41210	Unappropriated Retained Earnings/Losses	
41300	Revaluation Surplus	Sub-ledger required

Uniform System of Accounts

2. INCOME STATEMENT ACCOUNTS

Operating Revenues

Sales	51000		
	51110	Residential Customers	Sub-ledger required
	51120	Revenues from Commercial Customers	Sub-ledger required
	51121	Revenues from 400 V Commercial Customers	
	51122	Revenues from 10/6 KV Commercial Customers	
	51130	Revenues from Industrial Customers	Sub-ledger required
	51131	Revenues from 400 V Industrial Customers	
	51132	Revenues from 10/6 KV Industrial Customers	
	51133	Revenues from 35 KV Industrial Customers	
	51140	Budgetary Bodies	Sub-ledger required
	51200	Transmission Licensees	Sub-ledger required
	51210	Revenues from Capacity Payments to Transmission Licensees	
	51220	Revenues from Energy Sales to Transmission Licensees	
	51230	Revenues from Heat Sales to Transmission Licensees	
	51300	Distribution Licensees	Sub-ledger required
	52000	Penalties and Interest	Sub-ledger required
	53000	Other Operating Revenues	Sub-ledger required

Uniform System of Accounts

Sales Returns & Allowances	52000	
	52100	Discounts

Operating Expenses

Cost of Goods Sold	61000	
Energy Related Expenses	61010	Coal
	61011	Coal Used for Generation of Electricity
	61012	Coal Used for Generation of Heat
	61020	Mazut
	61021	Mazut Used for Generation of Electricity
	61022	Mazut Used for Generation of Heat
	61030	Fuel Transportation
	61031	Fuel Transportation for Generation of Electricity
	61032	Fuel Transportation for Generation of Heat
	61040	Fuel Handling Expenses
	61041	Fuel Handling Expenses for Generation of Electricity
	61042	Fuel Handling Expenses for Generation of Heat
	61050	Purchased Power
	61060	Purchased Heat

Uniform System of Accounts

Operations Expenses	61100	Land Use Fees and Rents	Sub-acc. Required for Voltage Levels
	61110	Materials and Supplies	Sub-acc. Required for Voltage Levels
	61120	Chemicals	Sub-acc. Required for Voltage Levels
	61130	Lubricants	Sub-acc. Required for Voltage Levels
	61140	Fixed Water Fees	Sub-acc. Required for Voltage Levels
	61150	Variable Water Fees	Sub-acc. Required for Voltage Levels
	61160	Payroll and Bonuses	Sub-acc. Required for Voltage Levels
	61170	Employer Social Security and Health Contributions	Sub-acc. Required for Voltage Levels
	61180	Other Employee Benefits	Sub-acc. Required for Voltage Levels
	61190	Utility Expenses	Sub-acc. Required for Voltage Levels
	61200	Equipment Lease and Rental Expense	Sub-acc. Required for Voltage Levels
	61210	Transportation Expenses	Sub-acc. Required for Voltage Levels
	61220	Communications Expenses	Sub-acc. Required for Voltage Levels
	61230	Depreciation Expense	Sub-acc. Required for Voltage Levels
	61240	Fire Protection Expense	Sub-acc. Required for Voltage Levels
	61250	Dispatching Expenses	Sub-acc. Required for Voltage Levels
	61260	Office Supplies and Expenses	Sub-acc. Required for Voltage Levels
	61270	Travel Expenses	Sub-acc. Required for Voltage Levels
	61280	Insurance	Sub-acc. Required for Voltage Levels
	61290	Training	Sub-acc. Required for Voltage Levels
	61300	Outside Services	Sub-acc. Required for Voltage Levels
	61310	Security	Sub-acc. Required for Voltage Levels
	61320	Workplace Safety	Sub-acc. Required for Voltage Levels
	61330	Other Operating Expenses	Sub-acc. Required for Voltage Levels

Uniform System of Accounts

Maintenance Expenses	61500	Materials and Supplies	Sub-acc. Required for Voltage Levels
	61510	Payroll and Bonuses	Sub-acc. Required for Voltage Levels
	61520	Employer Social Security and Health Contributions	Sub-acc. Required for Voltage Levels
	61530	Other Employee Benefits	Sub-acc. Required for Voltage Levels
	61540	Plant Parts and Components	Sub-acc. Required for Voltage Levels
	61550	Utility Expenses	Sub-acc. Required for Voltage Levels
	61560	Equipment Lease and Rental Expense	Sub-acc. Required for Voltage Levels
	61570	Transportation Expenses	Sub-acc. Required for Voltage Levels
	61580	Communications Expenses	Sub-acc. Required for Voltage Levels
	61590	Depreciation Expense	Sub-acc. Required for Voltage Levels
	61600	Fire Protection Expense	Sub-acc. Required for Voltage Levels
	61610	Office Supplies and Expenses	Sub-acc. Required for Voltage Levels
	61620	Other Lease and Rental Expense	Sub-acc. Required for Voltage Levels
	61630	Travel Expenses	Sub-acc. Required for Voltage Levels
	61640	Insurance	Sub-acc. Required for Voltage Levels
	61650	Training	Sub-acc. Required for Voltage Levels
	61660	Outside Services	Sub-acc. Required for Voltage Levels
	61670	Security	Sub-acc. Required for Voltage Levels
	61680	Workplace Safety	Sub-acc. Required for Voltage Levels
	61690	Other Maintenance Expenses	Sub-acc. Required for Voltage Levels

Uniform System of Accounts

Administrative Expenses	70000	
	70010	Expenses of Board of Directors
	70020	Expenses of Control Committee
	70030	Payroll and Bonuses
	70040	Employer Social Security and Health Contributions
	70050	Other Employee Benefits
	70060	Land Use Fees and Rents
	70070	Utility Expenses
	70080	Rent Expenses
	70090	Transportation Expenses
	70100	Materials and Supplies
	70110	Business Travel Expenses
	70120	Communications Expenses
	70130	Depreciation Expense
	70140	Office Supplies and Expenses
	70150	Travel Expenses
	70160	Insurance
	70170	Training
	70180	Outside Services
	70190	Security
	70200	Regulatory Fees
	70210	Taxes Other Than Income
	70220	Other Administration Expenses

Uniform System of Accounts

Sales Expenses	71000
	71010 Payroll and Bonuses
	71020 Employer Social Security and Health Contributions
	71030 Other Employee Benefits
	71040 Land Use Fees and Rents
	71050 Utility Expenses
	71060 Rent Expenses
	71070 Transportation Expenses
	71080 Materials and Supplies
	71090 Communications Expenses
	71100 Depreciation
	71110 Office Supplies and Expenses
	71120 Travel Expenses
	71130 Insurance
	71140 Training
	71150 Outside Services
	71160 Security
	71170 Advertising Expenses
	71180 Other Expenses
	71300 Bad Debt Expense

Uniform System of Accounts

Billing and Collection	71400	Payroll and Bonuses
	71410	Employer Social Security and Health Contributions
	71420	Other Employee Benefits
	71430	Land Use Fees and Rents
	71440	Utility Expenses
	71450	Rent Expenses
	71460	Transportation Expenses
	71470	Materials and Supplies
	71480	Communications Expenses
	71490	Depreciation
	71500	Office Supplies and Expenses
	71510	Travel Expenses
	71520	Insurance
	71530	Training
	71540	Outside Services
	71550	Security
	71560	Advertising Expenses
	71570	Other Expenses

Uniform System of Accounts

Non-operating Revenues	84000		
	84100	Interest Income	
	84200	Income from Penalties and Fines	
	84300	Dividend Income	
	84400	Foreign Exchange Gain	
	84500	Sales of Materials and Supplies	Sub-accounts as required
	84600	Other Non-operating Revenues	
Non-operating Expenses	87000		
	87100	Interest Expense on Long-term Debt	
	87110	Interest Expense on Short-term Debt	
	87200	Penalties and Fines Paid	
	87400	Foreign Exchange Loss	
	87500	Cost of Materials and Supplies Sold	Sub-accounts as required
	87600	Other Non-operating Expenses	
Income Tax Expense	91000		
Income Summary	92000		

SECTION III: LONG-TERM ASSETS AND DEPRECIATION

Accounting for long-term assets and depreciation are included in IAS 16.

Property, plant and equipment are tangible assets that are held by an enterprise for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used during more than one year. Examples of these assets are power plants, transmission towers, cable, etc.

Assets are to be recorded on the books initially at actual cost, whether purchased or self-constructed. Items to be included in the initial cost include the amounts paid for all activity required placing the asset into service. For self-constructed assets, the cost would include payments for contract work done by others, labor and benefits paid to employees directly involved in construction, allocations of general and administrative expenses, materials and supplies, major components purchased, transportation, taxes, licenses, engineering services, and an allowance for interest expense during construction.

Licensees are required to capitalize all expenditures for assets when:

- The asset is anticipated to provide economic benefits to the Licensee for a period of time exceeding one year;
- The asset is both used in accomplishing the licensed business activity, and useful, meaning that the asset is necessary to accomplish or support the licensed business activity.

However, expenditures on minor or not material items should not be capitalized regardless of their useful lives.

General asset categories are shown in the Chart of Accounts. Licensees are required to further subcategorize assets to a level of detail adequate to permit the presentation of assets by group and/or function or size. Examples include the presentation of power lines by voltage level, or transportation equipment by type (passenger vehicles, trucks, etc).

For each individual item of property, plant and equipment, Licensee will maintain a plant inventory record that shows at a minimum:

- Name and description of the asset
- Location of the unit
- Date the unit was placed in service
- Original cost of the unit
- The account number to which the cost of the asset was charged
- Useful life
- Depreciable Amount
- Anticipated salvage value

If property, plant, and equipment are stated at revalued amounts, certain additional disclosures are required:

- the effective date of the revaluation;
- whether an independent appraiser was involved;
- the methods and significant assumptions used in estimating fair values;
- the extent to which fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques;
- the carrying amount that would have been recognized had the assets been carried under the cost model;
- the revaluation surplus, including changes during the period and distribution restrictions.

It will generally be preferable to allocate the total expenditure on an asset to its component parts and account for each component separately. This is required when the component assets are anticipated to have different useful lives (e.g. structures, boilers and turbines) and will require different depreciation rates.

Depreciation of an asset is to be calculated on the depreciable amount and the anticipated useful life. The useful lives for assets are to be based on the best estimate of the assets actual predicted useful life. Tax, or other accelerated useful lives are not to be used.

Subsequent to initial recording, Licensees should examine all assets periodically for evidence of improper valuation, inaccurate useful lives, or possible impairment. Should it become evident that any of these has occurred, the Licensee will make the appropriate determinations of each (valuation, useful life, and any impairment) in accordance with International Financial Reporting Standards. Any revaluation request must be supported by evidence of competent analysis of the asset group undergoing revaluation.

The Government issued the regulation #8 in 1994 regarding asset depreciation, and all enterprises currently use the schedule. The asset useful lives that were determined for this regulation were unrealistic.

A. Subsequent Expenditure

Subsequent expenditure relating to an item of property, plant and equipment that has already been recognized should be added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure should be recognized as an expense in the period in which it is incurred.

B. Depreciation

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. The depreciation method used should reflect the pattern in which the asset's economic benefits are consumed by the enterprise. The depreciation charge for each period should be recognized as an expense unless it is included in the carrying amount of another asset.

C. Review of Depreciation Method

The depreciation method applied to property, plant and equipment should be reviewed periodically and, if there has been a significant change in the expected pattern of economic benefits from those assets, the method should be changed to reflect the changed pattern. When such change in depreciation method is necessary the change should be accounted for as a change in accounting estimate and the depreciation charge for the current and future periods should be adjusted.

D. Review of Useful Life

The useful life of an item of property, plant and equipment should be reviewed periodically and, if expectations are significantly different from previous estimates, the depreciation charge for the current and future periods should be adjusted.

E. Impairment of Assets

The IAS 36 “Impairment of Assets” should be used when fixed asset impairments occur. The impairment related to financial assets like investments in affiliated companies, subsidiaries, and joint venture, inventory, construction contract assets, deferred taxes, and employee assets are not handled by this standard.

At the end of each fiscal year, fixed assets should be reviewed for possible impairment. Because many factors affect assets to be impaired, fixed assets should be viewed from financial and replacement value, technological and tangible side. According to the standard, impairment loss should be recognized when asset cost exceeds replacement value.

SECTION IV: COST ACCOUNTING ASPECTS IN TWO-PART TARIFF AND COST ALLOCATION METHODOLOGY

A. Revenue Requirement

Determining revenue requirements is an important step in developing tariff. Thus, cost accounting aspects in revenue requirements should be analyzed closely.

Note: Per the Energy Law, Mongolian energy sector companies are permitted to claim only past expenses as a base for their tariff applications to the ERA. Since international best practices have made the revenue requirements approach to tariff making common place, and since international investors will insist on this approach in order to have a better match between revenues and expenditures during the same business cycle, it is anticipated that this provision will be changed in the Energy Law in the near future. It is for that reason that we have included the following discussion in this manual.

The components of revenue requirements are:

- Total operating and maintenance expenses
- Depreciation expenses
- Taxes other than income taxes
- Return on investment (equity and cost of debt)

Operating and maintenance expenses are those expenses incurred through the normal course of the Licensee's licensed business activity not including depreciation and taxes. Examples are purchased power, fuel, transportation expenses, etc.

Depreciation is the depreciable cost of property, plant and equipment in service, including intangible assets. Examples include transmission structures, distribution networks, and vehicles.

Taxes other than income taxes are those incurred as a cost of performing the licensed business activity. This category includes those items such as property taxes, vehicle taxes, etc. Income taxes are a cost to the owners, and are not included in the revenue requirements calculation.

The ROI represents two components.

First: The profit level to be included in the revenue requirements. It is intended to permit the Licensee to earn a specific percentage return on the owners' investment in the business.

Second: The recovery of the cost of long-term debt. For the purpose of calculating cost of capital, the amount of debt is multiplied by the interest rate, and the amount of investment is multiplied by the authorized rate of return. The results are added together to comprise a total cost of capital on a weighted basis.

$$ROI = Total\ Investment * Weighted\ Average\ Cost\ of\ Capital$$

The first three components of revenue requirements could be obtained from projected financial statements. However, the last component, ROI, requires separate calculations beginning with determining total investment.

The investment, for this purpose, is comprised of total property, plant and equipment plus intangible assets (software etc) necessary for conducting the licensed activity less accumulated depreciation, plus inventories and working capital.

$$\text{Total Investment} = \text{Net Non-Current Asset} + \text{Inventory} + \text{Working Capital}$$

Working capital is calculated as (45/365) of total operating and maintenance expenses less fuel and/or purchased power costs.

$$\frac{(\text{Total _ Operating _ Expenses} - \text{Fuel _ or _ Purchased Power})}{365} \times 45$$

In other words, the average daily amount of costs is multiplied by 45 to determine the working capital allowance.

Working capital is monetary source to finance the operations for the period between paying payables and collecting receivables. This average time period is 45 days (40-50) in the United States practice and which is 45/365 of the year. The ERA shall approve above working capital days for the sector. Determining above number properly requires a study for an extended period of time, and there have not been such study in the energy sector.

The above definition of working capital is different from the Interim Tariff Methodology issued previously by the ERA, where the working capital is defined as an excess of current assets over current liabilities. The later definition does not necessarily have any incentives to improve collection rates and to reduce short term borrowing, instead it rather discourages. In accordance with the new definition, licensees with longer working capital days face extra costs not covered by the revenue requirements, while those licensees with shorter working capital days enjoy an extra financial benefit.

Operating and maintenance expenses do not include depreciation expense for calculating working capital because depreciation is a non-cash item. "Fuel or purchased power" is an expense from the energy related expenses section. The cost of goods sold account is included in the Uniform System of Accounts with "61" coding, which consists of energy related expenses, operations expenses, and maintenance expenses. This facilitates the usage of the above formula to calculate working capital.

A1. Illustration on Revenue Requirement Calculation

Following example is provided to further understand the calculation of revenue requirements. We assume that one of the licensees submitted following projected financial statements shown on the next page.

The projected financial statements include a balance sheet and income statement with proper balances. Current assets, for example, consist of items such as cash and equivalents, receivable, short term investment, inventory, and prepayment amounts that are converted to cash within a year or one operating cycle, whichever is longer. Long-term investments should not be included in current assets, instead all cash on hand and available in bank accounts should be part of the current asset section. Receivables are analyzed by aging schedule and should be net of bad debt reserves.

The energy sector non-current assets are mainly tangible ones like property, plant, and equipment. Cost of fixed assets and accumulated depreciation are likely to be unrealistic because of misled asset revaluations executed for state-owned enterprises. Depreciation and other expenses, therefore, submitted for tariff filing are inconsistent with information on the financial statements.

Comparing to others, the energy sector is highly capital intensive, which usually results in substantial amount of non-current assets on licensee books. However, some licensees depreciated their assets more than they should have or others have assets with high book values but need to be disposed.

The licensees, therefore, need to submit their financial information to the ERA in accordance with the IAS, proper classification of current assets, proper valuation of non-current assets, proper market prices in order to achieve the least cost to develop tariffs.

For illustration, following financial statements submitted by one of the licensees. In the below example, ROI is equal to cost of long-term debt plus return on equity. The company has a short-term loan balance of 100, costs of which will not be covered by the ROI.

BALANCE SHEET

Asset			
Current Asset			
Cash	500.0		
Receivable	1,000.0		
Bad Debt Reserve	(260.0)		
Fuel	200.0		
Supplies	<u>50.0</u>		
Total Current Asset		1,490.0	
Non-current Asset			
Asset	3,800.0		
Acc. Depreciation	<u>(1,580.0)</u>		
Total Non-current Asset		<u>2,220.0</u>	
Total Asset			<u>3,710.0</u>
Liabilities and Equity			
Current Liability			
Accounts Payable	500.0		
Payroll	180.0		
Taxation	295.8		
Short term Loan	<u>100.0</u>		
Current Liability		1,075.8	
Non-current Liability	10%	<u>500.0</u>	
Total Liability		1,575.8	
Equity		<u>2,134.3</u>	
Total Liabilities and Equity			<u>3,710.0</u>

INCOME STATEMENT

Sales			
Electricity	1,800.0		
Heat	<u>1,200.0</u>		
Total Sales			<u>3,000.0</u>
COGS			
Coal	1,400.0		
Payroll	600.0		
Depreciation	300.0		
Maintenance	210.0		
Tax Other Than Income	<u>24.0</u>		
Total COGS		<u>2,534.0</u>	
Gross Income		<u>466.0</u>	
(-) Operating Expenses:			
Administrative Expense	300.0		
Selling Expense	<u>180.0</u>		
Total Operating Expense		<u>480.0</u>	
Operating Income		<u>-14.0</u>	
Non-operating Expense			
Interest Expense-short term loan	10.0		
Interest Expense-long term loan	<u>50.0</u>		
Total Non-operating Expense		<u>60.0</u>	
Net Income/Loss			<u>- 74.0</u>

Table 1. Return on Investment (ROI)

Investment			
Net Fixed Assets:			
	Fixed Assets	3,800	
	(-) Accum. Depreciation	<u>1,580</u>	2,220
(+) Inventory			250
(+) Working Capital			
	Operating Expense	2,714	
	(-) Fuel or Purchased Power	<u>1,400</u>	
		1,314	1/8
			<u>164</u>
Total Investment			<u>2,634</u>
ROI Rate			
Non-current Liability	500	10%	50
Equity	<u>2,134</u>	16%	<u>341</u>
	2,634		<u>391</u>
WACC			15%
Return on Investment			
Total Investment			2,634
Rate			15%
ROI			391

Table 2. Revenue Requirement

I.	Operating Expense	
	Coal	1,400
	Payroll	600
	Maintenance	210
	Administrative	300
	Selling	<u>180</u>
		2,690
II.	Depreciation	300
III.	Tax other than Income	24
IV.	Return on Investment	<u>391</u>
	Revenue Requirement	3,405

B. Generating Licensee

B1. Cost Reporting and Allocation

The Licensee allocates the Total Revenue Requirement to thermal energy and electricity as follows:

1. Capacity and energy costs are allocated to heat and electricity by item in accordance with the allocation methods of Table 3 in the appendices.
2. Annual depreciation is allocated similarly as allocation of non-current assets.
3. The Investment is allocated to thermal energy and electricity as follows:
 - Fuel handling, boiler and associated equipment and facility are allocated in the same percentage as the fuel cost.
 - Turbine generators and facility as well as electrical equipment are allocated 100% to electricity.
 - Thermal energy related equipment is allocated 100% to thermal energy.
 - Output meters are allocated directly to thermal energy and electricity.
 - Buildings, vehicles, fences, main office building, garages, maintenance equipment and other miscellaneous fixed assets shall be prorated based on allocation of fixed assets.
 - Accumulated depreciation shall be allocated in the same way as non-current assets.
 - The cost of capital for thermal generation and electricity shall be the same.
 - Costs that are identified as “Combined” should be allocated to thermal energy and electricity according to the fuel allocation methodology.

C. Transmission Licensee

C1. Cost Reporting and Allocation

Allocation of Revenue Requirement to Network Services and Market Operation

The Licensee allocates the Total Revenue Requirement to transmission network services and market operation as follows:

- Operation and Maintenance Costs are allocated to Network Services and Market Operation by item in accordance with the allocation methods of Table 6 in the appendices.
- Annual depreciation is allocated as allocation of non-current assets (see below).
- The Investment is allocated to Network Services and Market Operation as follows:
 - Office furniture and PCs used for Market Operation are allocated to Market operation.
 - Other fixed assets are allocated 100% to Network Services.
 - Accumulated depreciation shall be allocated in the same way as allocation of fixed assets.
- The Cost of Capital for Network Services and Market Operation shall be the same.

D. Distribution/Supply Licensee

D1. Background Information

Many of the distribution entities currently hold two licenses to perform the basic functions of electricity distribution and regulated retail supply.

Distribution services

The distribution function includes the ownership, operation, and maintenance of the distribution infrastructure. Fixed assets of the distribution system include lines, substations, transformers, service drops, and related equipment including customer meters. In addition, the distribution function includes the reading of the meter.

One class of customers should not be assessed for costs that are required for other classes of customers. The primary determinant of the cost to serve a customer class is the voltage at which that class receives service. Therefore, we must further allocate costs to the three primary voltage classes:

- 35KV
- 10 and 6 KV
- 400 volts.

In order to determine the revenue requirement for each voltage class, cost elements must be analyzed and where possible, directly assigned to voltage classes.

Retail supply

The retail function includes customer relations, billing, collections, complaint resolution, marketing etc. Since bad debt expense is related to collections, it is a component of cost associated with this function.

D2. Cost Reporting and Allocation

Fixed asset

Following are some general guidelines that can be used to assign fixed asset and related costs to voltage levels:

- A significant amount of fixed assets can be directly assigned to voltage classes.
 - Distribution lines are generally recorded in the fixed asset accounts based on their voltage
 - Substations and transformers are generally recorded in the records based on their voltage. These facilities should be categorized based on the low side voltage (example, a 35/10 KV transformer would be classified as 10KV)
- Equipment not associated with specific voltages could be allocated to voltages based on:

- All other fixed assets
 - The distribution of employee salaries to voltage levels
 - The distribution of operating and maintenance costs to voltage levels
- Depreciation expense can be analyzed specifically or prorated based on the results of the fixed asset analysis.

Operating expense

Following are some general guidelines that can be used to assign operating and maintenance costs to voltage levels:

- Directly assign costs to voltage level where possible. Items such as replacement parts can be handled in this manner. Some salary costs can be directly charged to accounts associated with a specific voltage.
- Allocate salary costs based on estimates or surveys of the activities of employees.
- Salary related costs such as benefits and taxes can be allocated based on salaries.
- General costs such as administration and support costs can be allocated based on overall salaries.
- Current maintenance is generally associated with facilities of a specific voltage.

SECTION V: INTERNATIONAL ACCOUNTING AND FINANCIAL REPORTING STANDARDS

A. Introduction

This section of the manual is divided into two sections consisting of the Framework of the International Accounting and Financial Reporting Standards (IAFRS) and highlighted topics of the standards.

“The International Accounting Standards Board’s current position is to develop a single set of high quality, understandable, and enforceable global accounting standards that require transparent and comparable information in general purpose financial statements”. This message from the Board has evolved into a more authoritative and prescriptive manner over the years. A reason is that more and more countries, including the EU, have been adopting the standards; thus requiring the IASB to further strengthen the standards. The Board has released five IFRS overriding some of the old standards and revised many of the IAS to undertake a process of strengthening the standards.

The Framework is not an International Financial Reporting Standard and does not define standards for any particular measurement or disclosure issue. Instead, it assists the IASB:

- a) in the development of future International Accounting Standards and in its review of existing International Accounting Standards; and
- b) in promoting the harmonization of regulations, accounting standards and procedures relating to the presentation of financial statements by providing a basis for reducing the number of alternative accounting treatments permitted by International Accounting Standards.

The Framework included in this handout will be revised by the Board in the future considering fast-moving changes in the IFRS. For instance, the current framework states, “financial statements are most commonly prepared in accordance with an accounting model based on recoverable historical cost and the nominal financial capital maintenance concept”. However, the presentation of financial statements based on historical costs is not appropriate considering revaluations of assets; and it is especially not appropriate for transitional developing economies, where improper valuations of assets are more common.

Determination of profit is an important concept included in the Framework and following are the two concepts:

- a) Financial capital maintenance concept: Under this concept a profit is earned only if the financial (or money) amount of the net assets at the end of the period exceeds the financial (or money) amount of net assets at the beginning of the period, after excluding any distributions to, and contributions from, owners during the period.
- b) Physical capital maintenance. Under this concept a profit is earned only if the physical productive capacity (or operating capability) of the enterprise (or the resources or funds needed to achieve that capacity) at the end of the period exceeds the physical productive capacity at the beginning of the period, after excluding any distributions to, and contributions from, owners during the period.

Benchmark and allowed alternative treatments are the two methods in IAS intended to employ multiple treatments for accounting events. As we mentioned above, however, the Board is promoting a basis for reducing the number of alternative accounting treatments in newly released

IFRSs and standards that will be approved in the future. Thus, the Board shall gradually eliminate some allowed alternative treatments out of the IAFRSs.

B. Framework for the Preparation and Presentation of Financial Statements

Financial statements are prepared and presented for external users by many enterprises around the world. There are differences that have probably been caused by a variety of social, economic and legal circumstances and by different countries having in mind the needs of different users of financial statements.

The International Accounting Standards Committee (IASC) is committed to narrowing these differences by seeking to harmonize regulations, accounting standards and procedures relating to the preparation and presentation of financial statements. It believes that further harmonization can best be pursued by focusing on financial statements that are prepared for the purpose of providing information that is useful in making economic decisions.

Financial statements are most commonly prepared in accordance with an accounting model based on recoverable historical cost and the nominal financial capital maintenance concept.

B1. Underlying Assumptions

Accrual Basis

In order to meet their objectives, financial statements are prepared on the accrual basis of accounting. Under this basis, the effects of transactions and other events are recognized when they occur (and not as cash or its equivalent are received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

Going Concern

The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations.

B2. Qualitative Characteristics of Financial Statements

Understandability

An essential quality of the information provided in financial statements is that it is readily understandable by users.

Relevance

To be useful, information must be relevant to the decision-making needs of users. Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations.

Materiality

The relevance of information is affected by its nature and materiality. In some cases, the nature of information alone is sufficient to determine its relevance. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

Reliability

To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias.

Faithful Representation

To be reliable, information must represent faithfully the transactions and other events it either purports to represent or could reasonably be expected to represent.

Substance over Form

If information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form.

Neutrality

To be reliable, the information contained in financial statements must be neutral, that is, free from bias.

Prudence

The preparers of financial statements, however, do have to contend with the uncertainties that inevitably surround many events and circumstances, such as the collectability of doubtful receivables, the probable useful life of plant and equipment and the number of warranty claims that may occur. Such uncertainties are recognized by the disclosure of their nature and extent and by the exercise of prudence in the preparation of the financial statements.

Completeness

To be reliable, the information in financial statements must be complete within the bounds of materiality and cost. An omission can cause information to be false or misleading and thus unreliable and deficient in terms of its relevance.

Comparability

Users must be able to compare the financial statements of an enterprise through time in order to identify trends in its financial position and performance.

B3. Constraints on Relevant and Reliable Information

Timeliness

If there is undue delay in the reporting of information it may lose its relevance. Management may need to balance the relative merits of timely reporting and the provision of reliable information.

Balance between Benefit and Cost

The value received by the user of the financial statement must exceed the cost of producing the information.

Balance between Qualitative Characteristics

The aim is to achieve an appropriate balance among the characteristics in order to meet the objective of financial statements. The relative importance of the characteristics in different cases is a matter of professional judgment.

True and Fair View/Fair Presentation

Financial statements are frequently described as showing a true and fair view of, or as presenting fairly, the financial position, performance and changes in financial position of an enterprise.

B4. Measurement of the Financial Statement Elements

- a. Historical cost: Assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation, or in some circumstances (for example, income taxes), at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.
- b. Current cost: Assets are carried at the amount of cash or cash equivalents that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.
- c. Realizable (settlement) value: Assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the asset in an orderly disposal. Liabilities are carried at their settlement values; that is, the undiscounted amounts of cash or cash equivalents expected to be paid to satisfy the liabilities in the normal course of business.
- d. Present value: Assets are carried at the present discounted value of the future net cash inflows that the item is expected to generate in the normal course of business. Liabilities are carried at the present discounted value of the future net cash outflows that are expected to be required to settle the liabilities in the normal course of business.

C. Summaries of the Standards

International Accounting and Financial Reporting Standards

	<u>Revision Date</u>
IAS 1 Presentation of Financial Statements	December 2003
IAS 2 Inventories	December 2003
IAS 7 Cash Flow Statements	
IAS 8 Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies	December 2003
IAS 10 Events After the Balance Sheet Date	December 2003
IAS 11 Construction Contracts	
IAS 12 Accounting for Taxes on Income	
IAS 14 Reporting Financial Information by Segment	
IAS 16 Property, Plant and Equipment	December 2003
IAS 17 Accounting for Leases	December 2003
IAS 18 Revenue	
IAS 19 Employee Benefits	
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	
IAS 21 The Effects of Changes in Foreign Exchange Rates	December 2003
IAS 23 Borrowing Costs	
IAS 24 Related-Party Disclosures	December 2003
IAS 26 Accounting and Reporting by Retirement Benefit Plans	
IAS 27 Consolidated Financial Statements and Accounting for Investments in Subsidiaries	December 2003
IAS 28 Accounting for Investments in Associates	December 2003
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Framework for the Preparation and Presentation of Financial Statements	

IAS 1 – Presentation of Financial Statement

- ✎ The objective of this Standard is to prescribe the basis for presentation of general purpose financial statements, in order to ensure comparability both with the enterprise's own financial statements of previous periods and with the financial statements of other enterprises.
- ✎ Financial statements includes the following components:
 - a. balance sheet;
 - b. income statement;
 - c. a statement showing either:
 - all changes in equity; or
 - changes in equity other than those arising from capital transactions with owners and distributions to owners;
 - d. cash flow statement; and
 - e. accounting policies and explanatory notes.
- ✎ Financial statements should not be described as complying with International Accounting Standards unless they comply with all the requirements of each applicable Standard and each applicable interpretation of the Standing Interpretations Committee.
- ✎ As a minimum, the face of the balance sheet should include line items which present the following amounts:
 - a. property, plant and equipment;
 - b. intangible assets;
 - c. financial assets (excluding amounts shown under (d), (f) and (g));
 - d. investments accounted for using the equity method;
 - e. inventories;
 - f. trade and other receivables;
 - g. cash and cash equivalents;
 - h. trade and other payables;
 - i. tax liabilities and assets;
 - j. provisions;
 - k. non-current interest-bearing liabilities;
 - l. minority interest; and
 - m. issued capital and reserves.
- ✎ As a minimum, the face of the income statement should include line items which present the following amounts:
 - a. revenue;
 - b. the results of operating activities;
 - c. finance costs;
 - d. share of profits and losses of associates and joint ventures accounted for using the equity method;
 - e. tax expense;
 - f. profit or loss from ordinary activities;
 - g. extraordinary items;
 - h. minority interest; and
 - i. net profit or loss for the period.

IAS 2 – Inventories

- ✧ Inventories are valued at lower of cost or net realizable value.
- ✧ The cost of inventories should comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.
- ✧ Methods such as FIFO, LIFO, and weighted average method.

IAS 7 – Cash Flow Statement

- ✧ The cash flow statement should report cash flows during the period classified by operating, investing and financing activities.
- ✧ An enterprise should report cash flows from operating activities using either:
 - a. the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or
 - b. the indirect method, whereby net profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.
- ✧ Cash flows arising from transactions in a foreign currency should be recorded in an enterprise's reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the cash flow.

IAS 8 – Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies

- ✧ The objective of this Standard is to prescribe the classification, disclosure and accounting treatment of certain items in the income statement so that all enterprises prepare and present an income statement on a consistent basis.
- ✧ The nature and the amount of each extraordinary item should be separately disclosed. (The Board is stipulating to eliminate the extraordinary provision sometime in the future)
- ✧ The effect of a change in an accounting estimate should be included in the determination of net profit or loss in:
 - a. the period of the change, if the change affects the period only; or
 - b. the period of the change and future periods, if the change affects both.
- ✧ The effect of a fundamental errors should be treated as follows:
 - a. Adjusting the opening balance of retained earnings. Comparative information should be restated.
 - b. included in the determination of net profit or loss for the current period. Comparative information should be presented as reported in the financial statements of the prior period.
- ✧ Change in accounting policies should be handled the same as above.

IAS 10 – Events after the Balance Sheet Date

- ✎ This standard includes accounting treatment regarding those events that occur between the balance sheet date and the date when the financial statements are authorized for issue.
 - a. if there is an evidence of conditions that existed at the balance sheet date, financial statement adjustment is necessary
 - b. if there is an indicative of conditions that arose after the balance sheet date, financial statement adjustment is not necessary. However, disclosure is required for material events.

IAS 11 – Construction Contracts

- ✎ Only percentage-of-completion method is allowed for construction type contracts. Revenues and expenses are recorded based on the percentage of completion of the construction work.

IAS 12 – Accounting for Taxes on Income

- ✎ This standard prescribes accounting treatments relating to income taxes for current fiscal period, deferred tax asset and liability.
- ✎ Income tax payable for current and prior periods are recognized as a liability.
- ✎ Income tax recoverable or overpaid is recognized as an asset.

IAS 14 – Reporting Financial Information by Segment

- ✎ The objective of this Standard is to establish principles for reporting financial information by segment - information about the different types of products and services an enterprise produces and the different geographical areas in which it operates.
- ✎ Accounting for primary and secondary segment reporting formats.
- ✎ Accounting for business and geographical segment reporting.

IAS 16 – Property, Plant, and Equipment

- ✎ The principal issues in accounting for property, plant and equipment are the timing of recognition of the assets, the determination of their carrying amounts and the depreciation charges to be recognized in relation to them.
- ✎ Non-current asset should initially be measured at its cost. Following the initial recognition, carrying amount of the asset should be recorded as following,
 - a. cost less any accumulated depreciation and any accumulated impairment losses.
 - b. revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.
- ✎ Recognition criteria for non-current assets.

- ✧ Initial measurement and components of costs.
- ✧ Criteria for subsequent expenditures. Basic requirements are increased productivity and future economic benefit.
- ✧ Asset revaluation is allowed by the alternative treatment.
- ✧ If any assets are revalued, all other assets in those groupings or categories also need to be revalued.
- ✧ Accounting treatments and accounts used for the revaluation.
- ✧ Cost of the asset should be allocated systematically over its useful life. The depreciation method used should reflect the pattern in which the asset's economic benefits are consumed by the enterprise.
- ✧ The useful life of an asset is defined in terms of the asset's expected utility to the enterprise. Therefore, the useful life can be different from physical life of asset.

IAS 17 - Lease

- ✧ The objective of this Standard is to prescribe, for lessees and lessors, the appropriate accounting policies and disclosure to apply in relation to finance and operating leases.
- ✧ Financial and operating are the two types of leases. Depending on transfer of ownership of the asset, different accounting treatments are used.

IAS 18 - Revenue

- ✧ The objective of this Standard is to prescribe the accounting treatment of revenue arising from certain types of transactions and events.
- ✧ The primary issue in accounting for revenue is determining when to recognize revenue.

IAS 19 – Employee Benefits

- ✧ The objective of this standard is to prescribe the accounting treatment for employee benefits.
- ✧ A liability should be recognized when an employee has provided service in exchange for employee benefits to be paid in the future.
- ✧ Accounting treatment for short-term and long-term employee benefits.
- ✧ Accounting for post-employment retirement issues.

IAS 20- Accounting for Government Grants and Disclosure of Government Assistance

- ✧ The objective of this standard is to prescribe the accounting for government grants.

- ✧ This is different from subsidies issued by the Government of Mongolia to state-owned entities.
- ✧ This Standard does not deal with:
 - a. the special problems arising in accounting for government grants in financial statements reflecting the effects of changing prices or in supplementary information of a similar nature;
 - b. government assistance that is provided for an enterprise in the form of benefits that are available in determining taxable income or are determined or limited on the basis of income tax liability
 - c. Government participation in the ownership of the enterprise.
- ✧ A government grant is recognized as income on a systematic basis over the periods necessary to match the grant income with the related costs that is intended to compensate.
- ✧ Government grants related to assets are presented in the balance sheet either as deferred income or as a deduction in determining the carrying amount of the asset.

IAS 21 – The Effects of Changes in Foreign Exchange Rates

- ✧ The principal issues in accounting for foreign currency transactions and foreign operations are how to recognize in the financial statements the financial effect of changes in exchange rates.
- ✧ A foreign currency transaction should be recorded by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

IAS 23 – Borrowing Costs

- ✧ This Standard generally requires the immediate expensing of borrowing costs. However, the Standard permits, as an allowed alternative treatment, the capitalization of borrowing costs that is directly attributable to the acquisition, construction or production of a qualifying asset.

IAS 24 – Related Party Disclosures

- ✧ This Standard should be applied in dealing with related parties and transactions between a reporting enterprise and its related parties.
- ✧ It prescribes what parties are considered as related parties.
- ✧ Related party transactions need to be disclosed to the financial statements.

IAS 26 – Accounting and Reporting by Retirement Benefit Plans

- ✧ Defined benefit and defined contributions are the two common plans for retirement benefits. This standard includes measurement and disclosures of the defined benefit plan.

- ✎ The report of a retirement benefit plan, whether defined benefit or defined contribution, should contain the information of a statement of changes in net assets available for benefits, a summary of significant accounting policies, and a description of the plan and the effect of any changes in the plan during the period.

IAS 27 – Consolidated Financial Statements and Accounting for Investment in Subsidiaries

- ✎ This Standard should be applied in the preparation and presentation of consolidated financial statements for a group of enterprises under the control of a parent or accounting for investments in subsidiaries in a parent's separate financial statements.
- ✎ The reporting date of parent and its subsidiaries shall not be more than 3 months apart.
- ✎ The consolidated financial statements are prepared using uniform accounting policies.
- ✎ The consolidation process as follows:
 - a. the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary are eliminated
 - b. Intercompany balances, transactions, income, and expenses should be eliminated in full

IAS 28 – Accounting for Investments in Associates

- ✎ An associate is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor.
- ✎ Significant influence exists when an entity owns 20% or more of voting shares of the associate.
- ✎ Depending on significant influence exists or not, cost or equity methods are employed.

IAS 29 – Financial Reporting in Hyperinflationary Economics

- ✎ In a hyperinflationary economy, reporting of operating results and financial position in the local currency without restatement is not useful.
- ✎ Characteristics of the economy in hyperinflationary situation are stated.
- ✎ The financial statements of an enterprise that reports in the currency of a hyperinflationary economy should be stated in terms of the measuring unit current at the balance sheet date.

IAS 30 – Disclosures in the Financial Statements of Banks and Similar Financial Institutions

- ✎ This Standard should be applied in the financial statements of banks and similar financial institutions.

IAS 31 – Financial Reporting of Interests in Joint Ventures

- ✧ This Standard should be applied in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of ventures and investors.
- ✧ The following characteristics are common to all joint ventures:
 - a. two or more ventures are bound by a contractual arrangement; and
 - b. the contractual arrangement establishes joint control.

IAS 32 – Financial Instruments: Disclosures and Presentation

- ✧ The objective of this Standard is to enhance financial statement users' understanding of the financial instruments to an enterprise's financial position, performance and cash flows.
- ✧ Financial instruments are in forms of asset, liability and equity.

IAS 33 – Earnings per Share

- ✧ The objective of this Standard is to prescribe principles for the determination and presentation of earnings per share, which will improve performance comparisons among different enterprises in the same period and among different accounting periods for the same enterprise.
- ✧ Basic and diluted are the methods of calculating earnings per share.
- ✧ Basic EPS is calculated as net income divided by weighted average number of shares for the year.

IAS 34 – Interim Financial Reporting

- ✧ Interim period is a financial reporting period shorter than a full financial year.
- ✧ This standard prescribes the minimum amount of information that is required.

IAS 36 – Impairment of Assets

- ✧ The objective of this Standard is to prescribe the procedures that an enterprise applies to ensure that its assets are carried at no more than their recoverable amount.
- ✧ Various factors affect the asset impairment. Financial, technological, and physical obsolescence need to be considered closely.
- ✧ This standard prescribes that impairment losses should be recognized when asset carrying amount is greater than recoverable amount.

IAS 38 – Intangible Assets

- ✧ The recognition of an item as an intangible asset requires an enterprise to demonstrate that the item meets the:

- a. definition of an intangible asset
- b. Inflow of economic benefit
- c. Reliable measurement of cost

- ✎ Revaluation is allowed.
- ✎ Internally generated intangibles like goodwill, brand names etc. are not accounted as intangible assets.
- ✎ Impairment of intangible assets follows IAS 36.

IAS 39 – Financial Instruments: Recognition and Measurement

- ✎ The objective of this Standard is to establish principles for recognizing, measuring, and disclosing information about financial instruments in the financial statements of business enterprises.

IAS 40 – Investment Property

- ✎ Accounting treatments for non-current assets held for rental.
- ✎ Asset is recorded at cost initially.
- ✎ Following the initial record, asset is recorded at
 - a. Cost less accumulated depreciation
 - b. Fair market value.

IAS 41 – Agriculture

- ✎ The objective of this Standard is to prescribe the accounting treatment, financial statement presentation, and disclosures related to agricultural activity.

IFRS 1 – First Time Adoption of International Financial Reporting Standards

- ✎ This applies when an entity adopts IFRSs for the first time by an explicit and unreversed statement of compliance of IFRSs.
- ✎ It prescribes the requirements to adopt IFRSs the first time.

IFRS 2 – Share-based Payment

- ✎ This standard prescribes the financial reporting by an entity when it undertakes share-based payment transaction.

IFRS 3 – Business Combination

- ✎ This standard prescribes the financial reporting by an entity when it undertakes business combination.

- ✧ All business combinations should use purchase method. The uniting of interest method is no longer allowed.
- ✧ It prescribes the types of business combinations that are accounted in this standard.
- ✧ It prescribes other accounting treatments for items such as goodwill etc.

IFRS 4 – Insurance Contracts

- ✧ This standard prescribes the financial reporting for insurance contracts by an entity that issues such contracts.

IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations

- ✧ It prescribes the accounting for assets held for sale, and the presentation and disclosure of discontinued operations.

D. Balance Sheet

What information do users get from balance sheet?

The balance sheet is studied to assess a firm's liquidity, its financial flexibility, and its ability to generate profits, pay its debts as they become due, and pay dividends. *Liquidity* refers to a measurement of entity's present cash and near-cash position. Liquidity thus refers to the enterprise's ability to meet its obligations as they fall due. *Financial flexibility* is the ability of the entity to take effective actions to alter the amounts and timing of its cash flows so that it can respond to unexpected needs. Financial flexibility includes the ability to raise new capital or tap into unused lines of credit. Balance sheet can be classified into current and non-current according to its liquidity. For many entities, *working capital* is a key indicator of liquidity and financial flexibility. Working capital is known as the excess of current assets over current liabilities.

Subsequent events

There are two types of subsequent events described by IAS 10. Adjustment is required if event existed at the date of balance sheet. Adjustment is not required if event not existed (disclosure is needed for material events). For example,

- ✚ A loss on uncollectible receivables because of customer's bankruptcy subsequent to the balance sheet date. Customer's deteriorating financial position would be indicative of conditions existing at the balance sheet date, thereby calling for adjustment of the financial statements before their issuance by recognizing bad debt expense.
- ✚ An asset such as plant and equipment had suffered a material decline in value arising out of reduced marketability for the product it can produce. Such a reduction would be considered an economic event in process at the balance sheet date and require recognition of the loss.
- ✚ Sale of a bond or share capital issue after the balance sheet date would not require an adjustment.
- ✚ Loss of asset because of natural disaster after the balance sheet date would not require an adjustment.

Bad debt

The direct write-off method is unsatisfactory since it results in a significant mismatching of revenues and expenses. Thus, bad debt expense should be recorded in the same fiscal period as the revenues to which they are related. Bad debt reserve is recorded as contra receivables account. Since this expense cannot be known with certainty, an estimate must be made. There are two popular estimation techniques.

1. Percentage-of-sales method. In order to use this method, historical data are analyzed to determine relationship between credit sales and bad debt. The reserve amount is determined by multiplying credit sales by the bad debt ratio. For example,

	Credit Sales	7,500,000
	Bad debt ratio	1.75%
	Computed year-end bad debt expense	131,250
Journal entry:		
	Bad debt expense	131,250
	Bad debt reserve	131,250

2. Aging method. The same as above method, historical data are analyzed to determine bad debt ratio. Higher ratios are applied to receivables with more aging. For example,

	0-45 days	45-90 days	90 – more	Total
Receivable	1,100,000	425,000	360,000	
Ratio	<u>0.5%</u>	<u>2.5%</u>	<u>15%</u>	
Reserve	5,500	10,625	54,000	70,125

Journal entry: Assuming the reserve balance is 30,000 (credit)

Bad debt expense	40,125
Bad debt reserve	40,125

The above two methods are based on estimates; therefore, exact amounts of bad debt are not known here. However, material differences should not be stated.

Pledging of Receivables

An entity may obtain loans from financial institutions using accounts receivables as collateral. Adequate disclose to financial statements is required. For example,

Current Asset:	
Receivable (3,500,000 of which has been pledged as collateral for bank loans)	8,450,000
Current Liability:	
Bank loans payable (secured by pledged accounts receivable)	2,700,000

Factoring of Receivables

Once a factoring arrangement is completed, an entity assumes no risk of doubtful accounts and receives payment up front. For example,

Darhan PP sold 200,000 (5% bad debt reserve) to another company. Annual interest is 20% on 30 days, and 3% fee.

Cash	190,712
Bad debt reserve	10,000
Interest expense (200,000 *.20 * 30/365)	3,288
Factoring fee	6,000
Bad debt expense	10,000
Receivable	200,000

Property, Plant, and Equipment

There are four concerns to be addressed in accounting for fixed assets in IAS 16.

1. The amount at which the assets should be recorded initially
2. How value changes subsequent to acquisition should be reflected in the accounts, including questions of both value increases and possible decreases due to impairments
3. Useful life of asset
4. The recording of disposal of the assets.


Initial Measurement of Cost

All costs required to bring an asset into working condition should be recorded as part of the cost of the asset. For example, taxes, fees, transportation expense, installation cost, site preparation etc.

Subsequent Expenditures

Costs that are incurred such as those for repairs and maintenance are treated in one of the following three ways 1) expensed 2) capitalized 3) reduction of accumulated depreciation.


Costs can be added to the carrying value of the asset only when it is probable that future economic benefits beyond those originally anticipated will be received. Increased economic benefit can be explained by either an extension of the useful life or increased output.

 If repairs extend the useful life of the asset, accumulated depreciation account should be reduced. On the other hand, if repairs increase value of the asset, the asset account should be increased.

Accounting treatment for recording the subsequent expenditures are shown on the next page.

Depreciation

The concept of fixed asset depreciation is based on matching principle of expense and revenue. Therefore, costs of fixed assets are systematically allocated to the periods benefited through depreciation.

 Life of the asset should be determined as an expected period of **usefulness** to the entity, not the physical life of the property itself that governs. For example, even though two entities own the same pieces of equipment, depreciable lives will be determined differently because of different usages of assets.

Compound assets should be recorded in several separate accounts into smaller elements. This recording in separate accounts eases the calculation of periodic depreciation of assets with various useful lives, overhaul, and replacement. However, for financial reporting purposes certain of these categories might be combined based on materiality.

Perhaps the most far-reaching change that will be mandated by the Board is requiring to depreciate the assets on component basis.

Type of expenditure	Characteristics	Expense when incurred	Capitalize		Other
			Charge to asset	Charge to accum. deprec	
1. Additions	Extensions, enlargements, or expansion		x		
2. Repairs and Maintenance					
a. Ordinary	1. Maintain normal operating condition 2. Do not add materially to use value 3. Do not extend useful life	x x x			
b. Extraordinary (major)	1. Primarily increase the use value 2. Primarily extend the useful life		x	x	
3. Replacement	Major component of asset is removed and replaced with the same type of component with comparable performance capabilities or different type of component having superior performance capability				
a. Book value of old component is known					1. Remove old asset cost and accum. depr. 2. Recognize any loss 3. Charge asset for replacement component
b. Book value of old component is not known	1. Primarily increase the use value 2. Primarily increase the useful life		x	x	
4. Reinstallation and rearrangements	1. Benefits extend into future periods 2. No measurable future benefits	x	x		

Review of Useful Life

An entity should review the useful life of assets periodically because many factors affect the usage of fixed assets. Useful life is affected by such things as the entity's practices regarding repairs and maintenance of its assets, as well as the pace of technological change and the market demand for goods produced etc. If prior determined useful life needs to be revised, this should be treated as change in accounting estimates according to the IAS 8. The change is recorded in current and future accounting periods.

Revaluation

Carrying amount of fixed assets can be revalued (increased) according to IAS 16 or be impaired (decreased) according to IAS 36. One of the justifications for asset revaluation is that if income is determined by reference to historical costs of assets acquired in earlier periods, the replacement of those assets in the normal course of events may well require more resources that are provided by depreciation.

IAS 16, therefore, allowed entities to revalue their assets to fair market value. The fair value is defined as the amount for which the asset could be exchanged between parties in an arm's-length transaction. If fair value is not determinable, replacement cost of asset can be used. Replacement cost deals with the service potential of the asset, which is after all what truly represents value for the entity.

Revaluation change is recorded in equity section of balance sheet. However, if the asset was previously impaired and the loss was recognized, the same revaluation amount is recorded as income on income statement. For example,

An asset acquired January 1, 2002, at a cost of 40,000 was expected to have a useful economic life of 10 years. On January 1, 2005, it is appraised as having a gross replacement cost of 50,000. After three years of usage, depreciated replacement cost is 35,000 ($7/10 \times 50,000$). Book value of the asset prior to the revaluation is 28,000. Journal entry as follows,

Asset	10,000	
Accumulated Depreciation		3,000
Revaluation Surplus		7,000

If useful life of the asset had not changed yet, then the journal entry on December 31, 2005 would be as follows:

Depreciation expense	5,000
Accumulated Depreciation	5,000

IAS 16 prudently requires that if any assets are revalued, all other assets in those groupings or categories also be revalued. This is necessary to avert the presentation of a balance sheet that contains a non-meaningful mixture of historical costs and current values.

Impairment

IAS 36 prescribes accounting treatment for asset impairment. If the carrying amount of asset exceeds its net recoverable amount, then write-down of the asset is required. Note that there is a requirement that impairment be calculated for all assets at each balance sheet date.

Rather, it is the existence of conditions that might be suggestive of a heightened risk of impairment that must be evaluated. Following are some of the conditions:

- ✚ Market value declines for specific assets beyond the declines expected,
- ✚ Significant changes in the technological, market, economic, or legal environments in which entity operates,
- ✚ Increases in the market interest rate, which cause increases in the discount rate,
- ✚ Decline in the entity's market value taken as a whole,
- ✚ Evidence of obsolescence of physical damage to an asset or group of assets,
- ✚ There have been significant internal changes to the organization or its operations, so that the expected useful life of the asset has seemingly been reduced,
- ✚ The economic performance of the asset is worse than previously anticipated.

Impairment is recognized as loss on income statement. However, if the asset was revalued before, the same amount of adjustment should be recorded in revaluation surplus account.

Intangible Assets

IAS 38 prescribes accounting treatment for intangible assets. The standard further categorized the assets as either

1. Identifiable – patent, copyright, trademark, program supply etc.
2. Unidentifiable – goodwill etc.

The standard prescribes that an intangible asset is recognized if future economic benefits will flow to the entity, and the cost can be measured reliably. For example,

An entity incurred substantial expenses in order to train its employees. Even though the training would result in significant improvement of employee qualifications, the entity could not own the economic benefit because employees have options to leave the entity for different firms. Therefore, the training expenditure is not qualified to be capitalized as an intangible asset.

Costs incurred such as taxes paid etc. prior to usage of intangibles can be added to the cost of asset. However, subsequent expenditures do not usually qualify for the capitalization.

The standard prescribes that goodwill can only be recognized if it is arising from a business combination. Thus, an internally generated goodwill does not qualify for an intangible asset.

IAS 38 states that following costs are expensed as they are incurred;

1. Research costs
2. Preopening costs to open a new facility or business, and plant start-up costs
3. Organization costs



4. Training costs
5. Advertising and related costs

Useful life

Given that the useful economic life of many intangibles would be difficult to assess, the rule is that a maximum 20 year life is permissible under IAS (MOFE ordinance 116 states the same as above). The only following exception would occur in those instances life of greater than 20 years.

1. The intangible has an existence that is not separable from a specific tangible asset, the useful life of which is more than 20 years.
2. There is a secondary market for the intangible.

Government Subsidy

Government subsidies received by an entity owned either in whole or in part by the government or its representatives are viewed as contributions to owner's equity and are to be directly credited to the corresponding equity account.



IAS 20 "Accounting for government grants and disclosure of government assistance" does not govern state-owned entities. The standard excludes following from the purview of the standard:

1. Special problems arising in reflecting the effects of changing prices on financial statements
2. Government assistance provided in the form of tax benefits
3. Government participation in the ownership of the enterprise.

However, Government grants received by a privately owned entity are to be capitalized and recognized as income over the period necessary to match them with the related costs for which the grants are intended to compensate.

Related-Party Transaction

IAS 24 prescribes accounting treatment for related-party transactions. The related party is defined as someone who has significant influence on entity's operation and decision-making. According to the standard, a disclosure note to financial statements is required for related-party transactions. Following information need to be included in the disclosure,

1. Nature of the relationship
2. Explanation of the transaction and how it affects the financial statements
3. Amount of the transaction
4. Amount of liability owed to or receivables from the related-party on balance sheet date

E. Income Statement and Other Accounting Issues

Revenue Recognition and Measurement

Revenue recognition is one of the important aspects in accounting. IAS 18 prescribes accounting treatment for revenues. The primary issue in accounting for revenue is determining when to recognize revenue. Revenue is recognized when it is probable that future economic benefits will flow to the enterprise and these benefits can be measured reliably. Further, following two criteria are required;

1. The earnings process is complete
2. Revenue is evidenced by the existence of an exchange transaction that has taken place

Extraordinary Items



The Board is stipulating to reduce the significance of extraordinary items and may even recognize them differently on income statement.

Only on rare occasions does an event or a transaction give rise to an extraordinary item. The nature of the event in relation to the business ordinarily carried out by an entity determines whether it should be classified as an extraordinary event. Thus, an event may be extraordinary for one enterprise but may not be extraordinary for another. For example,

Losses sustained from a hurricane would be an extraordinary event for most entities but for insurance company it would be an ordinary activity.

Examples of following two events that qualify for extraordinary items are included in IAS 8:

1. Losses resulting from the expropriation of assets
2. Losses sustained from natural disasters such as an earthquake.

The nature and the amount of each extraordinary item should be disclosed to the financial statements.

Accounting Changes and Correction of Errors

An entity's financial statements must provide users with comparable information over a period. If the entity changes its accounting policy or there have been errors in prior financial statements, then the financial statements shall provide users with mislead information. Thus, depending on nature of changes IAS 8 prescribes adjustments either in current period, prospectively, or retrospectively if necessary.

1. Change in accounting estimates. This is considered as the easiest one among other changes. Change in accounting estimates only affect current and future accounting periods. The accounting requires frequent use of estimates such as determining useful life

of an asset. We mentioned earlier that an entity should review the useful life of asset periodically, and adjust it if necessary. For example,

On January 1, 1999, an asset purchased for \$10,000 was originally estimated to have a ten-year life. On January 1, 2004, the asset is expected to last another ten years. Annual depreciation expense of \$1,000 for first 5 years is \$500 beginning January 1, 2004. Therefore, the change should reflect 2004 fiscal year and future periods.

2. Change in accounting policy. The term accounting policy includes change in accounting principles, standards, or if the change will result in a more appropriate presentation of events or transactions in the financial statements of the enterprise. Example of the change is that previously capitalized expenditures are immediately expensed. A change in inventory costing is another example. If change in accounting policy occurs, beginning balance of retained earnings should be adjusted in current period and prior period financial statements should be restated.
3. Correction of errors. Prior period financial statements may contain errors. If such errors are present, beginning balance of retained earnings should be adjusted in current period and prior period financial statements should be restated.

Foreign Currency Transaction

Financial statement must be presented under the same type of currency. Thus, foreign currency transactions are regulated by IAS 21. Foreign transaction is recorded using exchange rate, which is in effect on a day of the transaction. Any losses or gains resulting from the exchange rate changes are recognized on the income statement. For example,

Assume that Mongolian company sold electricity worth of \$10,000 to Russia on December 1, 2003. The payment will be made on January 31, 2004. An exchange rate on the day of transaction is \$1 = 1,150 Tog. Following journal entry is made on December 1, 2003.

Accounts Receivable – Russia	11,500,000
Sales	11,500,000

On December 31, 2003 or balance sheet date, exchange rate is \$1 = 1,170 tog. Accrued entry is:

Accounts Receivable – Russia	200,000	
Foreign Currency Exchange Difference		200,000

Note that the sales account is not affected by above journal entry.

On January 31, 2004, the payment is received and the exchange rate is \$1 = 1,140 tog.

Foreign Currency	11,400,000	
Foreign Currency Transaction Loss	300,000	
Accounts Receivable		11,700,000

This realized net foreign currency loss of 100,000 tug is reported on two income statements: a 200,000 tug gain in 2003 and 300,000 loss in 2004.

APPENDIX: A

USOA Account Descriptions

Account Group	Code	Account Title	Instruction
1. BALANCE SHEET ACCOUNTS			
Current Assets			
Cash on Hand	10000		
	10100	Mongolian Togrog	Sort currencies by tugrug, foreign, and usage.
	10200	US Dollar	
	10300	Euro	
	10400	Other	
Cash in Bank	11000		
	11100	Mongolian Togrog	Sort by currencies in each bank.
	11200	US Dollar	
	11300	Euro	
	11400	Other	

APPENDIX: A**USOA Account Descriptions**

Account Group	Code	Account Title	Instruction
Receivables	12000		
	12110	Receivables From Residential Customers	Sub-ledger required. All residential customers including both apartment and ger area.
	12120	Receivables From Commercial Customers	Sub-ledger required. All commercial customers such as retail shops, restaurants, banks etc. Balance at this account will be allocated to next accounts by voltage level.
	12121	Receivables From 400 V Commercial Customers	400V commercial customers.
	12122	Receivables From 10/6 KV Commercial Customers	10/6KV commercial customers.
	12130	Receivables From Industrial Customers	Sub-ledger required. All industrial customers such as mines, manufacturing plants etc. Balance at this account will be allocated to next accounts by voltage.
	12131	Receivables From 400 V Industrial Customers	400V industrial customers.
	12132	Receivables From 10/6 KV Industrial Customers	10/6KV industrial customers.
	12133	Receivables From 35 KV Industrial Customers	35KV industrial customers.
	12140	Receivables From Budgetary Bodies	Sub-ledger required. All state-owned entities such as schools.

APPENDIX: A**USOA Account Descriptions**

Account Group	Code	Account Title	Instruction	
	12210	Receivables From Transmission Licensees	Generating licensee's receivables	Sub-ledger required. Generation receivable from transmission company.
	12211	Capacity Sales To Transmission Licensees		Generation receivable for capacity payment.
	12212	Energy Sales to Transmission Licensees		Generation receivable for energy payment.
	12213	Heat Sales to Transmission Licensees		Generation receivable for sale of heat.
	12220	Receivables From Distribution Licensees	Transmission Receivables	Sub-ledger required. Transmission receivable for electricity and heat sale from distribution companies.
	12310	Employee Advances Other Than Payroll	Sub-ledger required.	Any advances other than payroll to employees are recorded.
	12320	Employee Payroll Advances		Payroll advances to employees.
	12350	Receivables From Administration		Any kind of administrative receivable
	12400	Receivables From Affiliated Companies		Refer to page 8 for definition of affiliated companies.
	12500	Inter-company receivables		Receivables from subsidiaries
	12600	Receivables From Foreign Entities		Any receivable from foreign entities.
	12700	Other Receivables		Receivables not included above.
	12800	Value Added Tax		Overpayment of VAT balance.
	12900	Bad Debt Reserve		Predetermined amount of receivables that not expected to be collected. This is contra receivables account.

APPENDIX: A

USOA Account Descriptions

Account Group	Code	Account Title	Instruction
Short-term Investment	13000		
	13100	Marketable Securities	Sub-ledgers required
	13200	Notes Receivable	
	13300	Government Securities	
	13400	Other Short-term Investments	
	13500	Current Portion of Long-term Investments	
	13900	Discounts on Short-term Investments	

APPENDIX: A**USOA Account Descriptions**

Account Group	Code	Account Title	Instruction
Inventory	14000		
	14110	Fuel Inventory: Coal	Sub-ledgers required
	14120	Fuel Inventory: Mazut	
	14200	Major Spare Parts and Components	
	14300	Tools	
	14400	Materials and Supplies	
	14510	Gasoline and Liquid Fuels	
	14520	Lubricants	
	14600	Transportation Equipment Supplies	
	14700	Chemicals	
	14800	Safety Equipment and Supplies	
	14900	Other Inventories	
Prepayments	18000		
	18100	Prepaid Expenses	Sub-ledgers required
	18210	Income Taxes	
	18220	Personal Income Taxes Withheld	
	18230	Social and Health Insurance Contributions	
	18240	Other Tax Prepayments	
	18300	Supplier Prepayments	
	18400	Other Prepayments	

APPENDIX A**UNIFORM SYSTEM OF ACCOUNTS**

Account Group	Code	Account Title	Instruction
Non-current Assets			
Production Assets	20000		
	20100	Land and Land Rights	Detailed property records required. Assets used for core business activities.
	20200	Buildings, Structures and Improvements	
	20210	Boiler Plant Equipment	Detailed property records required. Generation non-current assets
	20220	Engines and Engine-driven Generators	
	20230	Turbines and Generators	
	20240	Accessory Electrical Equipment	
	20250	Other Power Plant Equipment	
	20260	Reservoirs, Dams and Waterways	
	20270	Roads, Trails and Bridges	
	20280	Fuel Holders, Producers and Accessories	
	20290	Diesel Generators	
	20300	Substation Equipment	Detailed property records required. Transmission non-current assets
	20310	Poles, towers and Fixtures	
	20320	Overhead Conductors and Devices	
	20330	Underground Conduit and Piping	
	20340	Underground Conductors and Devices	
	20350	Line Transformers	
	20360	Service Installations	Detailed property records required. Distribution/supply non-current assets
	20370	Metering Devices	
	20380	Installations on Customer Premises	
	20400	Construction Work in Progress	

APPENDIX A**UNIFORM SYSTEM OF ACCOUNTS**

Account Group	Code	Account Title	Instruction
General Assets	20500	Land and Land Rights	Detailed property records required. Office and other general uses
	20510	Structures and Improvements	
	20520	Office Furniture and Equipment	
	20530	Transportation Equipment	Detailed property records required. General uses.
	20540	Warehouse Equipment	
	20550	Tools, Shop and Garage Equipment	
	20560	Laboratory Equipment	
	20570	Power Operated Equipment	
	20580	Communication Equipment	
	20590	Other Property, Plant and Equipment	Others not mentioned above
Intangible Assets	21000		
	21100	Goodwill	Excess amount paid for a company in a business combination over the fair market value of the company's assets.
	21200	Patents	All patents licensees hold.
	21300	Trademarks and Copyrights	Trademarks and copyrights licensees hold.
	21400	Licenses	Licenses.
	21500	Computer Software	All software such as engineering, accounting etc.
	21600	Deferred Debits and Other Intangible Assets	Others not mentioned above.

APPENDIX A**UNIFORM SYSTEM OF ACCOUNTS**

Account Group	Code	Account Title	Instruction
Current Liabilities	31000		
	31100	Trade Payables	Payables to suppliers such as generation, transmission etc.
	31150	Interest Payables	Any interest owed such as loan interest.
	31200	Generation Licensees	Transmission payables to generation licensee.
	31210	Transmission Licensees	Distribution payables to transmission licensee.
	31220	Distribution Licensees	Any payables owed to distribution.
	31230	Dispatch Licensees	Any payables owed to dispatching.
	31300	Income Tax Payable	Income tax owed to tax authority.
	31400	Payroll Taxes Payable	Payroll taxes owed to tax authority.
	31410	Union Taxes Payable	Union taxes owed to tax authority.
	31420	Customs Taxes Payable	Customs taxes (imported electricity etc) owed to tax authority.
	31430	Social Security and Health	Amount owed to contribution.
	31440	Other Taxes Payable	Other taxes not mentioned above such as motor vehicle tax etc.
	31490	Value Added Tax Payable	Owed amount of VAT to tax authority.
	31500	Dividends Payable	Declared but not paid dividend to shareholders.
	31600	Payroll	Accrued or owed payroll to employees.
	31700	Short-term Loans	Loan within one year of maturity.
	31710	Short-term Notes Payable	Loan with written promise to pay within one year of maturity.
	31800	Current Portion of Long-term Liabilities	Current year portion of long-term debt.
	31900	Other Current Liabilities	Others not mentioned above

APPENDIX A

UNIFORM SYSTEM OF ACCOUNTS

Account Group	Code	Account Title	Instruction
Equity	41000		
	41100	Common Shares Issued and Outstanding	Shares with voting powers and ownership rights.
	41110	Preferred Shares Issued and Outstanding	Receive dividends prior to common stock and no voting power nor the ownership.
	41120	Treasury Shares	Stock issued but subsequently bought back by the same company and held for possible future reissuance or retirement.
	41130	Additional Paid-in Capital	Amount paid excess of par value for shares
	41200	Appropriated Retained Earnings/Losses	Reserved portion for future financing
	41210	Unappropriated Retained Earnings/Losses	Available retained earnings
	41300	Revaluation Surplus	Fixed asset revaluation changes.

APPENDIX A**UNIFORM SYSTEM OF ACCOUNTS**

Account Group	Code	Account Title	Instruction
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2. INCOME STATEMENT ACCOUNTS**Revenue**

51000

51110	Residential Customers	Sub-ledger required. All residential customers including both apartment and ger area.
51120	Revenues From Commercial Customers	Sub-ledger required. All commercial customers such as retail shops, restaurants, banks etc. Balance at this account will be allocated to next accounts by voltage level.
51121	Revenues From 400 V Commercial Customers	400V commercial customers.
51122	Revenues From 10/6 KV Commercial Customers	10/6KV commercial customers.
51130	Revenues From Industrial Customers	Sub-ledger required. All industrial customers such as mines, manufacturing plants etc. Balance at this account will be allocated to next accounts by voltage level.
51131	Revenues From 400 V Industrial Customers	400V industrial customers.
51132	Revenues From 10/6 KV Industrial Customers	10/6KV industrial customers.
51133	Revenues From 35 KV Industrial Customers	35KV industrial customers.
51140	Budgetary Bodies	Sub-ledger required. All state-owned entities such as schools etc.
51200	Transmission Licensees	Generation licensee's revenue from 2 part tariff payments
51210	Revenues From Capacity Payments to Transmission Licensees	
51220	Revenues From Energy Sales to Transmission Licensees	
51230	Revenues From Heat Sales to Transmission Licensees	

Sales Returns and Allowances

51300	Distribution Licensees	Transmission licensee revenue
52000	Penalties and Interest	All kinds of penalties and interest
53000	Other Operating Revenues	Other revenues not mentioned above
52000		Discounts given for sales
52100	Discounts	

APPENDIX A**UNIFORM SYSTEM OF ACCOUNTS**

Account Group	Code	Account Title	Instruction
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Expenses**Cost of Goods Sold****Energy Expense 61000**

61010	Coal	Total coal consumption for generation. Allocate balance to electricity and heat according to fuel allocation method.
61011	Coal Used for Generation of Electricity	Coal used for electricity generation.
61012	Coal Used for Generation of Heat	Coal used for heat generation.
61020	Mazut	Total mazut consumption for generation. Allocate balance to electricity and heat according to fuel allocation method.
61021	Mazut Used for Generation of Electricity	Mazut used for electricity generation.
61022	Mazut Used for Generation of Heat	Mazut used for heat generation.
61030	Fuel Transportation	Total costs for transporting fuel. Allocate balance to electricity and heat according to fuel allocation method.
61031	Fuel Transportation for Generation of Electricity	Transportation cost for electricity.
61032	Fuel Transportation for Generation of Heat	Transportation cost for heat.
61040	Fuel Handling Expenses	All fuel handling costs. Allocate balance to electricity and heat according to fuel allocation method.
61041	Fuel Handling Expenses for Generation of Electricity	Fuel handling for electricity.

APPENDIX A**UNIFORM SYSTEM OF ACCOUNTS**

Account Group	Code	Account Title	Instruction
Operations Expense	61042	Fuel Handling Expenses for Generation of Heat	Fuel handling for heat.
	61050	Purchased Power	Transmission, distribution licensees purchased electricity, and imported electricity cost.
	61060	Purchased Heat	Purchased heat from generation.
	61100	Land Use Fees and Rents	Land fees and rent expenses that are accounted as operating and production activities.
	61110	Materials and Supplies	Materials and supplies used for operation.
	61120	Chemicals	Chemicals used for water treatment and other operating activities for generation.
	61130	Lubricants	Lubricants used for operations.
	61140	Fixed Water Fees	Fixed amount of water used for generation.
	61150	Variable Water Fees	Variable amount of water used for generation.
	61160	Payroll and Bonuses	Labor for core operating activities.
	61170	Employer Social Security and Health Contribution	
	61180	Other Employee Benefits	Social benefits for above category employees.
	61190	Utility Expenses	Portion of consumed electricity, heat for operations.
	61200	Equipment Lease and Rental Expense	Rent payments for equipments used for operations.
	61210	Transportation Expense	Transportation expenses other than fuel transportation

APPENDIX A

UNIFORM SYSTEM OF ACCOUNTS

Account Group	Code	Account Title	Instruction
	61220	Communications Expense	Allocated amount of communication expenses to operations.
	61240	Fire Protection Expense	Allocated amount of fire protection expenses to operations.
	61270	Travel Expenses	Travel expenses incurred by labor for core operating activities.
	61290	Training	Total expenses incurred for training the employees.
	61320	Workplace Safety	Total expenses incurred for safety of workplace such as supplies and equipments.
	61330	Other Operating Expenses	Others not mentioned above

APPENDIX A**UNIFORM SYSTEM OF ACCOUNTS**

Account Group	Code	Account Title	Instruction
Maintenance Expenses	61500	Materials and Supplies	Materials and supplies used for maintenance.
	61510	Payroll and Bonuses	
	61520	Employer Social Security and Health Contributions	Maintenance labor (engineers, technicians etc.) - payroll, social and health, and benefits
	61530	Other Employee Benefits	
	61540	Plant Parts and Components	
	61550	Utility Expenses	Internal usage electricity, heat for maintenance purposes.
	61560	Equipment Lease and Rental Expense	Maintenance purpose lease of equipments.
	61570	Transportation Expenses	Maintenance purpose transportation expense
	61590	Depreciation Expense	Maintenance purpose asset depreciation
	61600	Fire Protection Expense	Maintenance purpose fire protection expense.
	61620	Other Lease and Rental Expense	Other maintenance purpose lease expenses
	61630	Travel Expenses	Maintenance crew travel expense
	61640	Insurance	Insurance other than social and health
	61650	Training	Maintenance crew training expense
	61660	Outside Services	Outsourcing expenses for maintenance service
	61680	Workplace safety	Maintenance crew
	61690	Other Maintenance Expenses	Others not mentioned above

APPENDIX A**UNIFORM SYSTEM OF ACCOUNTS**

Account Group	Code	Account Title	Instruction
Administrative Expenses	70000		
	70010	Expenses of Board of Directors	Total expenses incurred for board of directors.
	70020	Expenses of Control Committee	Total expenses incurred for control committee.
	70030	Payroll and Bonuses	Payroll for licensee administrative staff
	70040	Employer Social Security and Health Contributions	Contribution for above administrative staff.
	70050	Other Employee Benefits	All other benefits of administrative staff
	70060	Land Use Fees and Rents	Portion of land fees and rents for administrative expenses
	70070	Utility Expenses	Electricity, heat expenses of office building.
	70080	Rent Expenses	Administrative rent expense other than land
	70090	Transportation Expenses	Transportation expense for admin. staff.
	70100	Materials and Supplies	Administrative use supplies other than office.
	70110	Business Travel Expenses	Travel expenses for business purpose
	70120	Communications Expenses	Expenses such as mobile phones, fax, internet
	70130	Depreciation Expense	Depreciation on fixed assets for admin use. Office equipment, building, autos etc.
	70140	Office Supplies and Expenses	Office expenses such as toner, stationary etc.
	70150	Travel Expenses	Travel expenses other than business
	70160	Insurance	Insurance other than social and health such as building insurance, auto insurance etc.
	70170	Training	Training of administrative staff such as accounting, computer training etc.
	70180	Outside Services	Outsourcing of administrative work.
	70190	Security	Administrative security
	70200	Regulatory Fees	Various regulatory type fees.

APPENDIX A**UNIFORM SYSTEM OF ACCOUNTS**

Account Group	Code	Account Title	Instruction
	70210	Taxes Other Than Income	Various taxes such as property tax, motor vehicle tax etc.
	70220	Other Administration Expenses	Others not mentioned above

Sales Expenses**71000**

71010	Payroll and Bonuses	Sales department staff - payroll, social and health, and benefits.
71020	Employer Social Security and Health Contributions	
71030	Other Employee Benefits	
71040	Land Use Fees and Rents	Fees and rents related to sales activity
71050	Utility Expenses	Sales department electricity, heat etc expense
71060	Rent Expenses	Expenses incurred for rental of various equipments, supplies, materials etc for sales use.
71070	Transportation Expenses	Staff transportation expense.
71080	Materials and Supplies	Sales use supplies other than office.
71090	Communications Expenses	Expenses such as mobile phones, fax, internet
71100	Depreciation	Depreciation on fixed assets of sales dept.
71110	Office Supplies and Expenses	Office expenses such as toner, stationary etc.
71120	Travel Expenses	Sales staff travel.
71130	Insurance	Insurance other than social and health such as building insurance, auto insurance etc.
71140	Training	Training of sales staff such as accounting, computer training etc.
71150	Outside Services	Outsourcing of sales work.
71160	Security	Any security related expenses.
71170	Advertising Expenses	Any commercial advertising expenses.
71180	Other Expenses	Others not mentioned above.
71300	Bad Debt Expense	Receivables that are written off.

APPENDIX A**UNIFORM SYSTEM OF ACCOUNTS**

Account Group	Code	Account Title	Instruction
Billing and Collection Expenses	71400	Payroll and Bonuses	Billing & collection staff - payroll, social and health, and benefits.
	71410	Employer Social Security and Health Contributions	
	71420	Other Employee Benefits	
	71430	Land Use Fees and Rents	Portion of land fees and rents expenses for billing and collection
	71440	Utility Expenses	Billing department electricity, heat etc expense
	71450	Rent Expenses	Expenses incurred for rental of various equipments, supplies, materials etc for billing and collection use.
	71460	Transportation Expenses	Staff transportation expense.
	71470	Materials and Supplies	Billing use supplies other than office.
	71480	Communications Expenses	Expenses such as mobile phones, fax, internet
	71490	Depreciation	Depreciation on fixed assets of billing dept.
	71500	Office Supplies and Expenses	Office expenses such as toner, stationary etc.
	71510	Travel Expenses	Billing staff travel.
	71520	Insurance	Insurance other than social and health such as building insurance, auto insurance etc.
	71530	Training	Training of billing and collection staff such as accounting, computer training etc.
	71540	Outside Services	Outsourcing of collections work.
	71550	Security	Any security related expenses.
	71560	Advertising Expenses	Any commercial advertising expenses.
	71570	Other Expenses	Others not mentioned above.

APPENDIX A**UNIFORM SYSTEM OF ACCOUNTS**

Account Group	Code	Account Title	Instruction
Non-operating Income	84000		
	84100	Interest Income	Interest received from long and short term loan, and others.
	84200	Income From Penalties and Fines	Penalties resulting from non business activity
	84300	Dividend Income	Stock dividend received
	84400	Foreign Exchange Gain	Exchange rate gain
	84500	Sales of Materials and Supplies	This is non business activity.
	84600	Other Non-operating Revenues	Others not mentioned above
Non-operating Expense	87000		
	87100	Interest Expense on Long-term Debt	Interest received from long and short term loan, and others.
	87110	Interest Expense on Short-term Debt	
	87200	Penalties and Fines Paid	Penalties resulting from non business activity
	87400	Foreign Exchange Loss	Exchange rate loss
	87500	Cost of Materials and Supplies Sold	This is non business activity.
	87600	Other Non-operating Expenses	Others not mentioned above

Table 6. Transmission Licensee operating and maintenance expenses

Account Number	Cost Categories	Fiscal Year				Allocation	
		Q1	Q2	Q3	Q4	Network Services	Market Operation
	Energy related expense						
61050	Purchased Power						
	Operations expense						
61100	Land Use Fees and Rents						
61110	Materials and Supplies						
61160	Payroll and Bonuses						
61170	Employer Social Security and Health Contributions						
61180	Other Employee Benefits						
61190	Utility Expenses						
61200	Equipment Lease and Rental Expense						
61210	Transportation Expenses						
61220	Communications Expenses						
61230	Depreciation Expense						
61240	Fire Protection Expense						
61250	Dispatching Expenses						
61260	Office Supplies and Expenses						
61270	Travel Expenses						
61280	Insurance						
61290	Training						
61300	Outside Services						
61310	Security						
61320	Workplace Safety						
61330	Other Operating Expenses						
	Maintenance expense						
61500	Materials and Supplies						
61510	Payroll and Bonuses						
61520	Employer Social Security and Health Contributions						
61530	Other Employee Benefits						
61550	Utility Expenses						
61560	Equipment Lease and Rental Expense						
61570	Transportation Expenses						
61580	Communications Expenses						
61590	Depreciation Expense						
61600	Fire Protection Expense						
61610	Office Supplies and Expenses						
61620	Other Lease and Rental Expense						
61630	Travel Expenses						
61640	Insurance						
61650	Training						
61660	Outside Services						
61670	Security						
61680	Workplace Safety						
61690	Other Maintenance Expenses						
	Administrative						
70010	Expenses of Board of Directors						
70020	Expenses of Control Committee						
70030	Payroll and Bonuses						
70040	Employer Social Security and Health Contributions						
70050	Other Employee Benefits						
70060	Land Use Fees and Rents						
70070	Utility Expenses						
70080	Rent Expenses						
70090	Transportation Expenses						
70100	Materials and Supplies						
70110	Business Travel Expenses						
70120	Communications Expenses						
70130	Depreciation Expense						
70140	Office Supplies and Expenses						
70150	Travel Expenses						
70160	Insurance						
70170	Training						
70180	Outside Services						
70190	Security						
70200	Regulatory Fees						

Account Number	Cost Categories	Fiscal Year				Allocation	
		Q1	Q2	Q3	Q4	Network Services	Market Operation
70210	Taxes Other Than Income						
70220	Other Administration Expenses						
	Sales Expenses						
71010	Payroll and Bonuses						
71020	Employer Social Security and Health Contributions						
71030	Other Employee Benefits						
71040	Land Use Fees and Rents						
71050	Utility Expenses						
71060	Rent Expenses						
71070	Transportation Expenses						
71080	Materials and Supplies						
71090	Communications Expenses						
71100	Depreciation						
71110	Office Supplies and Expenses						
71120	Travel Expenses						
71130	Insurance						
71140	Training						
71150	Outside Services						
71160	Security						
71170	Advertising Expenses						
71180	Other Expenses						
71300	Bad Debt Expense						
	Billing and Collection						
71400	Payroll and Bonuses						
71410	Employer Social Security and Health Contributions						
71420	Other Employee Benefits						
71430	Land Use Fees and Rents						
71440	Utility Expenses						
71450	Rent Expenses						
71460	Transportation Expenses						
71470	Materials and Supplies						
71480	Communications Expenses						
71490	Depreciation						
71500	Office Supplies and Expenses						
71510	Travel Expenses						
71520	Insurance						
71530	Training						
71540	Outside Services						
71550	Security						
71560	Advertising Expenses						
71570	Other Expenses						

Table 7. Distribution Licensee operating and maintenance expenses

Account Number	Cost Categories	Fiscal Year			
		Q1	Q2	Q3	Q4
	Energy related expense				
61050	Purchased Power				
	Operations expense				
61100	Land Use Fees and Rents				
61110	Materials and Supplies				
61120	Chemicals				
61130	Lubricants				
61140	Fixed Water Fees				
61150	Variable Water Fees				
61160	Payroll and Bonuses				
61170	Employer Social Security and Health Contributions				
61180	Other Employee Benefits				
61190	Utility Expenses				
61200	Equipment Lease and Rental Expense				
61210	Transportation Expenses				
61220	Communications Expenses				
61230	Depreciation Expense				
61240	Fire Protection Expense				
61250	Dispatching Expenses				
61260	Office Supplies and Expenses				
61270	Travel Expenses				
61280	Insurance				
61290	Training				
61300	Outside Services				
61310	Security				
61320	Workplace Safety				
61330	Other Operating Expenses				
	Maintenance expense				
61500	Materials and Supplies				
61510	Payroll and Bonuses				
61520	Employer Social Security and Health Contributions				
61530	Other Employee Benefits				
61540	Plant Parts and Components				
61550	Utility Expenses				
61560	Equipment Lease and Rental Expense				
61570	Transportation Expenses				
61580	Communications Expenses				
61590	Depreciation Expense				
61600	Fire Protection Expense				
61610	Office Supplies and Expenses				
61620	Other Lease and Rental Expense				
61630	Travel Expenses				
61640	Insurance				
61650	Training				
61660	Outside Services				
61670	Security				
61680	Workplace Safety				
61690	Other Maintenance Expenses				

	Administrative				
70010	Expenses of Board of Directors				
70020	Expenses of Control Committee				
70030	Payroll and Bonuses				
70040	Employer Social Security and Health Contributions				
70050	Other Employee Benefits				
70060	Land Use Fees and Rents				
70070	Utility Expenses				
70080	Rent Expenses				
70090	Transportation Expenses				
70100	Materials and Supplies				
70110	Business Travel Expenses				
70120	Communications Expenses				
70130	Depreciation Expense				
70140	Office Supplies and Expenses				
70150	Travel Expenses				
70160	Insurance				
70170	Training				
70180	Outside Services				
70190	Security				
70200	Regulatory Fees				
70210	Taxes Other Than Income				
70220	Other Administration Expenses				
	Sales Expenses				
71010	Payroll and Bonuses				
71020	Employer Social Security and Health Contributions				
71030	Other Employee Benefits				
71040	Land Use Fees and Rents				
71050	Utility Expenses				
71060	Rent Expenses				
71070	Transportation Expenses				
71080	Materials and Supplies				
71090	Communications Expenses				
71100	Depreciation				
71110	Office Supplies and Expenses				
71120	Travel Expenses				
71130	Insurance				
71140	Training				
71150	Outside Services				
71160	Security				
71170	Advertising Expenses				
71180	Other Expenses				
71300	Bad Debt Expense				
	Billing and Collection				
71400	Payroll and Bonuses				
71410	Employer Social Security and Health Contributions				
71420	Other Employee Benefits				
71430	Land Use Fees and Rents				
71440	Utility Expenses				
71450	Rent Expenses				
71460	Transportation Expenses				
71470	Materials and Supplies				
71480	Communications Expenses				
71490	Depreciation				
71500	Office Supplies and Expenses				
71510	Travel Expenses				
71520	Insurance				
71530	Training				
71540	Outside Services				
71550	Security				
71560	Advertising Expenses				
71570	Other Expenses				

APPENDIX B.**Table 3. Generation Cost Allocation to Heat and Electricity**

Account Number	Capacity Costs	Allocation Method
	Operating Expenses	
61100	Land Use Fees and Rents	Allocate according to the pro-rated percentage of direct allocation to electricity and heat.
61140	Fixed Water Fees	Allocate according to the pro-rated percentage of direct allocation to electricity and heat.
61160	Payroll and Bonuses	Allocate based on employee tasks or location of work
	Combined* Payroll	Allocate according to the fuel allocation %
	Heat Payroll	100% Heat
	Electricity Payroll	100% Electricity
61170	Employer Social Security and Health Contributions	Same as "payroll and bonuses" above
61180	Other Employee Benefits	
61200	Equipment Lease and Rental Expense	
	Combined* Equipment	Allocate according to the fuel allocation %
	Heat Equipment	100% to heat
	Electricity Equipment	100% to electricity
61210	Transportation Expenses	Allocate according to the pro-rated percentage of direct allocation to electricity and heat.
61220	Communications Expenses	
61230	Depreciation Expense	
	Combined* Depreciation	Allocate according to the fuel allocation %
	Heat Depreciation	100% to heat
	Electricity Depreciation	100% to electricity
61240	Fire Protection Expense	Allocate according to the pro-rated percentage of direct allocation to electricity and heat.
61250	Dispatching Expenses	
61260	Office Supplies and Expenses	
61270	Travel Expenses	
61280	Insurance	
61290	Training	
61300	Outside Services	
61310	Security	
61320	Workplace Safety	
61330	Other Operating Expenses	
	Maintenance Expenses	
61510	Payroll and Bonuses	
	Combined* Payroll	Allocate according to the fuel allocation %
	Heat Payroll	100% Heat
	Electricity Payroll	100% Electricity
61520	Employer Social Security and Health Contributions	Same as "payroll and bonuses" above
61530	Other Employee Benefits	
61550	Utility Expenses	Allocate according to the pro-rated percentage of direct allocation to electricity and heat.
61560	Equipment Lease and Rental Expense	
	Combined* Equipment	Allocate according to the fuel allocation %
	Heat Equipment	100% to heat
	Electricity Equipment	100% to electricity
61570	Transportation Expenses	Allocate according to the pro-rated percentage of direct allocation to electricity and heat.
61580	Communications Expenses	
61590	Depreciation Expense	
	Combined* Depreciation	Allocate according to the fuel allocation %
	Heat Depreciation	100% to heat
	Electricity Depreciation	100% to electricity
61600	Fire Protection Expense	Allocate according to the pro-rated percentage of direct allocation to electricity and heat.
61610	Office Supplies and Expenses	
61620	Other Lease and Rental Expense	
61630	Travel Expenses	
61640	Insurance	
61650	Training	
61660	Outside Services	
61670	Security	
61680	Workplace Safety	
61690	Other Maintenance Expenses	

	Administrative Expenses	
70010	Expenses of Board of Directors	Allocate according to the pro-rated percentage of direct allocation to electricity and heat.
70020	Expenses of Control Committee	
70030	Payroll and Bonuses	
70040	Employer Social Security and Health Contributions	
70050	Other Employee Benefits	
70060	Land Use Fees and Rents	
70070	Utility Expenses	
70080	Rent Expenses	
70090	Transportation Expenses	
70100	Materials and Supplies	
70110	Business Travel Expenses	
70120	Communications Expenses	
70130	Depreciation Expense	
70140	Office Supplies and Expenses	
70150	Travel Expenses	
70160	Insurance	
70170	Training	
70180	Outside Services	
70190	Security	
70200	Regulatory Fees	
70210	Taxes Other Than Income	100% to electricity
70220	Other Administration Expenses	
	Sales Expenses	
71010	Payroll and Bonuses	Allocate according to the pro-rated percentage of direct allocation to electricity and heat.
71020	Employer Social Security and Health Contributions	
71030	Other Employee Benefits	
71040	Land Use Fees and Rents	
71050	Utility Expenses	
71060	Rent Expenses	
71070	Transportation Expenses	
71080	Materials and Supplies	
71090	Communications Expenses	
71100	Depreciation	
71110	Office Supplies and Expenses	
71120	Travel Expenses	
71130	Insurance	
71140	Training	
71150	Outside Services	
71160	Security	
71170	Advertising Expenses	
71180	Other Expenses	
71300	Bad Debt Expense	
	Heat	100% to heat
	Electricity	100% to electricity
	Billing and Collection Expenses	
71400	Payroll and Bonuses	Allocate according to the pro-rated percentage of direct allocation to electricity and heat.
71410	Employer Social Security and Health Contributions	
71420	Other Employee Benefits	
71430	Land Use Fees and Rents	
71440	Utility Expenses	
71450	Rent Expenses	
71460	Transportation Expenses	
71470	Materials and Supplies	
71480	Communications Expenses	
71490	Depreciation	
71500	Office Supplies and Expenses	
71510	Travel Expenses	
71520	Insurance	
71530	Training	
71540	Outside Services	
71550	Security	
71560	Advertising Expenses	
71570	Other Expenses	
	Other Expenses	

87100	Interest Expense on Long-term Debt	
87110	Interest Expense on Short-term Debt	
87400	Foreign Exchange Loss	
Account Number	Energy Costs	Allocation Method
	Energy Related Expenses	
61010	Coal	Allocate according to the fuel allocation %
61020	Mazut	
61030	Fuel Transportation	
61040	Fuel Handling Expenses	
	Operations Expenses	
61110	Materials and Supplies	
	Combined*	Allocate according to the fuel allocation %
	Heat	100% to heat
	Electricity	100% to electricity
61120	Chemicals	Allocate according to the fuel allocation %
61130	Lubricants	
	Combined*	Allocate according to the fuel allocation %
	Heat	100% to heat
	Electricity	100% to electricity
61150	Variable Water Fees	Allocate according to the fuel allocation %
	Maintenance Expenses	
61500	Materials and Supplies	
	Combined*	Allocate according to the fuel allocation %
	Heat	100% to heat
	Electricity	100% to electricity
61540	Plant Parts and Components	
	Combined*	Allocate according to the fuel allocation %
	Heat	100% to heat
	Electricity	100% to electricity

* The term "Combined" is referring to all costs incurred before the energy is split to heat and electricity

Table 4. Capacity and Energy Costs for Combined Heat and Electricity Generation

Account Number	Capacity Costs	Fiscal Year				Allocation	
		Q1	Q2	Q3	Q4	Electricity	Heat
	Operating Expenses						
61100	Land Use Fees and Rents						
61140	Fixed Water Fees						
61160	Payroll and Bonuses						
	Combined Payroll						
	Heat Payroll						
	Electricity Payroll						
61170	Employer Social Security and Health Contributions						
61180	Other Employee Benefits						
61200	Equipment Lease and Rental Expense						
	Combined Equipment						
	Heat Equipment						
	Electricity Equipment						
61210	Transportation Expenses						
61220	Communications Expenses						
61230	Depreciation Expense						
	Combined Depreciation						
	Heat Depreciation						
	Electricity Depreciation						
61240	Fire Protection Expense						
61250	Dispatching Expenses						
61260	Office Supplies and Expenses						
61270	Travel Expenses						
61280	Insurance						
61290	Training						
61300	Outside Services						
61310	Security						
61320	Workplace Safety						
61330	Other Operating Expenses						
	Maintenance Expenses						
61510	Payroll and Bonuses						
	Combined Payroll						
	Heat Payroll						
	Electricity Payroll						
61520	Employer Social Security and Health Contributions						
61530	Other Employee Benefits						
61550	Utility Expenses						
61560	Equipment Lease and Rental Expense						
	Combined Equipment						
	Heat Equipment						
	Electricity Equipment						
61570	Transportation Expenses						
61580	Communications Expenses						
61590	Depreciation Expense						
	Combined Depreciation						
	Heat Depreciation						
	Electricity Depreciation						
61600	Fire Protection Expense						
61610	Office Supplies and Expenses						
61620	Other Lease and Rental Expense						
61630	Travel Expenses						
61640	Insurance						
61650	Training						
61660	Outside Services						
61670	Security						
61680	Workplace Safety						
61690	Other Maintenance Expenses						

	Administrative Expenses						
70010	Expenses of Board of Directors						
70020	Expenses of Control Committee						
70030	Payroll and Bonuses						
70040	Employer Social Security and Health Contributions						
70050	Other Employee Benefits						
70060	Land Use Fees and Rents						
70070	Utility Expenses						
70080	Rent Expenses						
70090	Transportation Expenses						
70100	Materials and Supplies						
70110	Business Travel Expenses						
70120	Communications Expenses						
70130	Depreciation Expense						
70140	Office Supplies and Expenses						
70150	Travel Expenses						
70160	Insurance						
70170	Training						
70180	Outside Services						
70190	Security						
70200	Regulatory Fees						
70210	Taxes Other Than Income						
70220	Other Administration Expenses						
	Sales Expenses						
71010	Payroll and Bonuses						
71020	Employer Social Security and Health Contributions						
71030	Other Employee Benefits						
71040	Land Use Fees and Rents						
71050	Utility Expenses						
71060	Rent Expenses						
71070	Transportation Expenses						
71080	Materials and Supplies						
71090	Communications Expenses						
71100	Depreciation						
71110	Office Supplies and Expenses						
71120	Travel Expenses						
71130	Insurance						
71140	Training						
71150	Outside Services						
71160	Security						
71170	Advertising Expenses						
71180	Other Expenses						
71300	Bad Debt Expense						
	Heat						
	Electricity						
	Billing & Collection Expense						
71400	Payroll and Bonuses						
71410	Employer Social Security and Health Contributions						
71420	Other Employee Benefits						
71430	Land Use Fees and Rents						
71440	Utility Expenses						
71450	Rent Expenses						
71460	Transportation Expenses						
71470	Materials and Supplies						
71480	Communications Expenses						
71490	Depreciation						
71500	Office Supplies and Expenses						
71510	Travel Expenses						
71520	Insurance						
71530	Training						
71540	Outside Services						
71550	Security						
71560	Advertising Expenses						
71570	Other Expenses						
	Other Expenses						
87100	Interest Expense on Long-term Debt						
87110	Interest Expense on Short-term Debt						
87400	Foreign Exchange Loss						

	Total Capacity Costs						
Account Number	Energy Costs	Fiscal Year				Allocation	
		Q1	Q2	Q3	Q4	Electricity	Heat
	Energy Related Expenses						
61010	Coal						
61020	Mazut						
61030	Fuel Transportation						
61040	Fuel Handling Expenses						
61050	Purchased Power						
61060	Purchased Heat						
	Operations Expenses						
61110	Materials and Supplies						
	Combined						
	Heat						
	Electricity						
61120	Chemicals						
61130	Lubricants						
	Combined						
	Heat						
	Electricity						
61150	Variable Water Fees						
	Maintenance Expenses						
61500	Materials and Supplies						
	Combined						
	Heat						
	Electricity						
61540	Plant Parts and Components						
	Combined						
	Heat						
	Electricity						
	Total variable costs						

Table 5. Generation Non-current Asset Allocation

Account Number	Asset categories	Book Value	Accumulated Depreciation	Annual Depreciation	Allocation %		Electricity			Heat		
					Elec.	Heat	Book Value	Acc. Depr.	Annual Dep.	Book Value	Acc. Depr.	Annual Dep.
20200	Buildings, Structures and Improvements				Fuel Allocation %							
20210	Boiler Plant Equipment				Fuel Allocation %							
20220	Engines and Engine-driven Generators				100%							
20230	Turbines and Generators				100%							
20240	Accessory Electrical Equipment				Determine usage							
20250	Other Power Plant Equipment				Determine usage							
20260	Reservoirs, Dams and Waterways				100%							
20280	Fuel Holders, Producers and Accessories				Fuel Allocation %							
20290	Diesel Generators				100%							
20300	Substation Equipment				100%							
20310	Poles, towers and Fixtures				100%							
20320	Overhead Conductors and Devices				100%							
20330	Underground Conduit and Piping					100%						
20340	Underground Conductors and Devices				100%							
20350	Line Transformers				100%							
20370	Metering Devices				Heat or electricity							
20520	Office Furniture and Equipment				Heat or electricity							
20530	Transportation Equipment				Heat or electricity							
20540	Warehouse Equipment				Heat or electricity							
20550	Tools, Shop and Garage Equipment				Heat or electricity							
20560	Laboratory Equipment				Heat or electricity							
20570	Power Operated Equipment				Heat or electricity							
20580	Communication Equipment				Heat or electricity							
20590	Other Property, Plant and Equipment				Heat or electricity							
21200	Patents				Heat or electricity							
21300	Trademarks and Copyrights				Heat or electricity							
21400	Licenses				Heat or electricity							
21500	Computer Software				Heat or electricity							

**Energy Regulatory Authority
Uniform System of Accounts
Account Title and Numbering Scheme**

BALANCE SHEET ACCOUNTS

Current Assets		Additional Minimum Requirements
Cash On Hand	10000	
	10100 Mongolian Togrog	Appropriate sub-accounts as desired
	10200 US Dollar	Appropriate sub-accounts as desired
	10300 Euro	Appropriate sub-accounts as desired
	10400 Other	Appropriate sub-accounts as desired
Cash In Bank	11000	
	11100 Mongolian Togrog	Appropriate sub-accounts as desired
	11200 US Dollar	Appropriate sub-accounts as desired
	11300 Euro	Appropriate sub-accounts as desired
	11400 Other	Appropriate sub-accounts as desired
Receivables	12000	
	12110 Receivables From Residential Customers	Sub-ledger required
	12120 Receivables From Commercial Customers	Sub-ledger required
	12121 Receivables From 400 V Commercial Customers	
	12122 Receivables From 10/6 KV Commercial Customers	
	12130 Receivables From Industrial Customers	Sub-ledger required
	12131 Receivables From 400 V Industrial Customers	
	12132 Receivables From 10/6 KV Industrial Customers	
	12133 Receivables From 35 KV Industrial Customers	
	12140 Receivables From Budgetary Bodies	Sub-ledger required
	12210 Receivables From Transmission Licensees	Sub-ledger required
	12211 Capacity Sales To Transmission Licensees	
	12212 Energy Sales to Transmission Licensees	
	12213 Heat Sales to Transmission Licensees	
	12220 Receivables From Distribution Licensees	Sub-ledger required
	12310 Employee Advances Other Than Payroll	Sub-ledger required
	12320 Employee Payroll Advances	Sub-ledger required
	12350 Receivables From Administration	Sub-ledger required
	12400 Receivables From Affiliated Companies	Sub-ledger required
	12500 Inter-company receivables	Sub-ledger required
	12600 Receivables From Foreign Entities	Sub-ledger required
	12700 Other Receivables	Sub-ledger required
	12800 Value Added Tax Receivable	Sub-ledger required
	12900 Bad Debt Reserve	
Short Term Investments	13000	
	13100 Marketable Securities	Sub-ledger required
	13200 Notes Receivable	Sub-ledger required
	13300 Government Securities	Sub-ledger required
	13400 Other Short-term Investments	Sub-ledger required
	13500 Current Portion of Long-term Investments	Sub-ledger required
	13900 Discounts on Short-term Investments	Sub-ledger required
Inventory	14000	
	14110 Fuel Inventory: Coal	Sub-ledger required
	14120 Fuel Inventory: Mazut	Sub-ledger required
	14200 Major Spare Parts and Components	Sub-ledger required
	14300 Tools	Sub-ledger required
	14400 Materials and Supplies	Sub-ledger required
	14510 Gasoline and Liquid Fuels	Sub-ledger required
	14520 Lubricants	Sub-ledger required
	14600 Transportation Equipment Supplies	Sub-ledger required
	14700 Chemicals	Sub-ledger required
	14800 Safety Equipment and Supplies	Sub-ledger required
	14900 Other Inventories	Sub-ledger required
Prepayments	18000	
	18100 Prepaid Expenses	Sub-ledger required
	18210 Income Taxes	
	18220 Personal Income Taxes Withheld	Sub-ledger required
	18230 Social Security and Health Contributions	Sub-ledger required
	18240 Other Tax Prepayments	Sub-ledger required
	18300 Supplier Prepayments	Sub-ledger required
	18400 Other Prepayments	Sub-ledger required
Non-current Assets		
Production Assets	20000	
	20100 Land and Land Rights	Detailed Property Records Required
	20200 Buildings, Structures and Improvements	Detailed Property Records Required
	20210 Boiler Plant Equipment	Detailed Property Records Required
	20220 Engines and Engine-driven Generators	Detailed Property Records Required
	20230 Turbines and Generators	Detailed Property Records Required

	20240 Accessory Electrical Equipment	Detailed Property Records Required
	20250 Other Power Plant Equipment	Detailed Property Records Required
	20260 Reservoirs, Dams and Waterways	Detailed Property Records Required
	20270 Roads, Trails and Bridges	Detailed Property Records Required
	20280 Fuel Holders, Producers and Accessories	Detailed Property Records Required
	20290 Diesel Generators	Detailed Property Records Required
	20300 Substation Equipment	Detailed Property Records Required
	20310 Poles, towers and Fixtures	Detailed Property Records Required
	20320 Overhead Conductors and Devices	Detailed Property Records Required
	20330 Underground Conduit and Piping	Detailed Property Records Required
	20340 Underground Conductors and Devices	Detailed Property Records Required
	20350 Line Transformers	Detailed Property Records Required
	20360 Service Installations	Detailed Property Records Required
	20370 Metering Devices	Detailed Property Records Required
	20380 Installations on Customer Premises	Detailed Property Records Required
	20400 Construction Work in Progress	Detailed Property Records Required
General Assets	20500 Land and Land Rights	Detailed Property Records Required
	20510 Structures and Improvements	Detailed Property Records Required
	20520 Office Furniture and Equipment	Detailed Property Records Required
	20530 Transportation Equipment	Detailed Property Records Required
	20540 Warehouse Equipment	Detailed Property Records Required
	20550 Tools, Shop and Garage Equipment	Detailed Property Records Required
	20560 Laboratory Equipment	Detailed Property Records Required
	20570 Power Operated Equipment	Detailed Property Records Required
	20580 Communication Equipment	Detailed Property Records Required
	20590 Other Property, Plant and Equipment	Detailed Property Records Required
Accumulated Depreciation	20700 A/D on Property, Plant and Equipment	Sub-ledger required
	20710 A/D on Buildings, Structures and Improvements	Sub-ledger required
	20720 A/D on Boiler Plant Equipment	Sub-ledger required
	20730 A/D on Engines and Engine-driven Generators	Sub-ledger required
	20740 A/D on Turbines and Generators	Sub-ledger required
	20750 A/D on Accessory Electrical Equipment	Sub-ledger required
	20760 A/D on Other Power Plant Equipment	Sub-ledger required
	20770 A/D on Reservoirs, Dams and Waterways	Sub-ledger required
	20780 A/D on Roads, Trails and Bridges	Sub-ledger required
	20790 A/D on Fuel Holders, Producers and accessories	Sub-ledger required
	20800 A/D on Diesel Generators	Sub-ledger required
	20810 A/D on Substation Equipment	Sub-ledger required
	20820 A/D on Poles, towers and Fixtures	Sub-ledger required
	20830 A/D on Overhead Conductors and Devices	Sub-ledger required
	20840 A/D on Underground Conduit	Sub-ledger required
	20850 A/D on Underground Conductor and Devices	Sub-ledger required
	20860 A/D on Line Transformers	Sub-ledger required
	20870 A/D on Service Installations	Sub-ledger required
	20880 A/D on Metering Devices	Sub-ledger required
	20890 A/D on Installations on Customer Premises	Sub-ledger required
	20900 A/D on Structures and Improvements	Sub-ledger required
	20910 A/D on Office Furniture and Equipment	Sub-ledger required
	20920 A/D on Transportation Equipment	Sub-ledger required
	20930 A/D on Warehouse Equipment	Sub-ledger required
	20940 A/D on Tools, Shop and Garage Equipment	Sub-ledger required
	20950 A/D on Laboratory Equipment	Sub-ledger required
	20960 A/D on Power Operated Equipment	Sub-ledger required
	20970 A/D on Communication Equipment	Sub-ledger required
	20980 A/D on Other Property, Plant and Equipment	Sub-ledger required
Intangible Assets	21000	
	21100 Goodwill	Detailed Property Records Required
	21200 Patents	Detailed Property Records Required
	21300 Trademarks and Copyrights	Detailed Property Records Required
	21400 Licenses	Detailed Property Records Required
	21500 Computer Software	Detailed Property Records Required
	21600 Deferred Debits and Other Intangible Assets	Detailed Property Records Required
Accumulated Depreciation	21900	Sub-ledger required
	21910 A/D on Goodwill	Sub-ledger required
	21920 A/D on Patents	Sub-ledger required
	21930 A/D on Trademarks and Copyrights	Sub-ledger required
	21940 A/D on Licenses	Sub-ledger required
	21950 A/D on Computer Software	Sub-ledger required
	21960 A/D on Other Intangible Assets	Sub-ledger required
Long-term Investments	22000	
	22100 Marketable Securities	Sub-ledger required
	22200 Investments in Subsidiaries	Sub-ledger required
	22300 Other Long-term Investments	Sub-ledger required
Liabilities		
Current Liabilities	31000	
	31100 Trade Payables	Sub-ledger required

	31150 Interest Payables	Sub-ledger required
	31200 Generation Licensees	Sub-ledger required
	31210 Transmission Licensees	Sub-ledger required
	31220 Distribution Licensees	Sub-ledger required
	31230 Dispatch Licensees	Sub-ledger required
	31300 Income Tax Payable	Sub-ledger required
	31400 Payroll Taxes Payable	Sub-ledger required
	31410 Union Taxes Payable	Sub-ledger required
	31420 Customs Taxes Payable	Sub-ledger required
	31430 Social Security and Health Contributions	Sub-ledger required
	31440 Other Taxes Payable	Sub-ledger required
	31490 Value Added Tax Payable	Sub-ledger required
	31500 Dividends Payable	Sub-ledger required
	31600 Payroll	Sub-ledger required
	31700 Short-term Loans	Sub-ledger required
	31710 Short-term Notes Payable	Sub-ledger required
	31800 Current Portion of Long-term Liabilities	Sub-ledger required
	31900 Other Current Liabilities	Sub-ledger required
Non-current Liabilities	32000	
	32100 Long-term Notes Payable	Sub-ledger required
	32200 Long-term Loans Payable	Sub-ledger required
	32300 Bonds Outstanding	Sub-ledger required
	32310 Unamortized Premium Or Discount on Bonds	Sub-ledger required
	32400 Deferred Credits and Other Non-current Liabilities	Sub-ledger required
Equity		
Equity	41000	
	41100 Common Shares Issued and Outstanding	Sub-ledger and investor records required
	41110 Preferred Shares Issued and Outstanding	Sub-ledger and investor records required
	41120 Treasury Shares	Sub-ledger required
	41130 Additional Paid-in Capital	Sub-ledger required
	41200 Appropriated Retained Earnings/Losses	
	41210 Unappropriated Retained Earnings/Losses	
	41300 Revaluation Surplus	Sub-ledger required
INCOME STATEMENT ACCOUNTS		
Revenues		
Sales	51000	
	51110 Residential Customers	Sub-ledger required
	51120 Revenues From Commercial Customers	Sub-ledger required
	51121 Revenues From 400 V Commercial Customers	
	51122 Revenues From 10/6 KV Commercial Customers	
	51130 Revenues From Industrial Customers	Sub-ledger required
	51131 Revenues From 400 V Industrial Customers	
	51132 Revenues From 10/6 KV Industrial Customers	
	51133 Revenues From 35 KV Industrial Customers	
	51140 Budgetary Bodies	Sub-ledger required
	51200 Transmission Licensees	Sub-ledger required
	51210 Revenues From Capacity Payments to Transmission Licensees	
	51220 Revenues From Energy Sales to Transmission Licensees	
	51230 Revenues From Heat Sales to Transmission Licensees	
	51300 Distribution Licensees	Sub-ledger required
	52000 Penalties and Interest	Sub-ledger required
	53000 Other Operating Revenues	Sub-ledger required
Sales Returns and Allowan	52000	
	52100 Discounts	
Operating Expenses		
Cost of Goods Sold	61000	
Energy Related Expenses	61010 Coal	
	61011 Coal Used for Generation of Electricity	
	61012 Coal Used for Generation of Heat	
	61020 Mazut	
	61021 Mazut Used for Generation of Electricity	
	61022 Mazut Used for Generation of Heat	
	61030 Fuel Transportation	
	61031 Fuel Transportation for Generation of Electricity	
	61032 Fuel Transportation for Generation of Heat	
	61040 Fuel Handling Expenses	
	61041 Fuel Handling Expenses for Generation of Electricity	
	61042 Fuel Handling Expenses for Generation of Heat	
	61050 Purchased Power	
	61060 Purchased Heat	
Operations Expenses	61100 Land Use Fees and Rents	Sub-accounts Required for Voltage Levels
	61110 Materials and Supplies	Sub-accounts Required for Voltage Levels
	61120 Chemicals	Sub-accounts Required for Voltage Levels
	61130 Lubricants	Sub-accounts Required for Voltage Levels

	61140 Fixed Water Fees	Sub-accounts Required for Voltage Levels
	61150 Variable Water Fees	Sub-accounts Required for Voltage Levels
	61160 Payroll and Bonuses	Sub-accounts Required for Voltage Levels
	61170 Employer Social Security and Health Contributions	Sub-accounts Required for Voltage Levels
	61180 Other Employee Benefits	Sub-accounts Required for Voltage Levels
	61190 Utility Expenses	Sub-accounts Required for Voltage Levels
	61200 Equipment Lease and Rental Expense	Sub-accounts Required for Voltage Levels
	61210 Transportation Expenses	Sub-accounts Required for Voltage Levels
	61220 Communications Expenses	Sub-accounts Required for Voltage Levels
	61230 Depreciation Expense	Sub-accounts Required for Voltage Levels
	61240 Fire Protection Expense	Sub-accounts Required for Voltage Levels
	61250 Dispatching Expenses	Sub-accounts Required for Voltage Levels
	61260 Office Supplies and Expenses	Sub-accounts Required for Voltage Levels
	61270 Travel Expenses	Sub-accounts Required for Voltage Levels
	61280 Insurance	Sub-accounts Required for Voltage Levels
	61290 Training	Sub-accounts Required for Voltage Levels
	61300 Outside Services	Sub-accounts Required for Voltage Levels
	61310 Security	Sub-accounts Required for Voltage Levels
	61320 Workplace Safety	Sub-accounts Required for Voltage Levels
	61330 Other Operating Expenses	Sub-accounts Required for Voltage Levels
Maintenance Expenses	61500 Materials and Supplies	Sub-accounts Required for Voltage Levels
	61510 Payroll and Bonuses	Sub-accounts Required for Voltage Levels
	61520 Employer Social Security and Health Contributions	Sub-accounts Required for Voltage Levels
	61530 Other Employee Benefits	Sub-accounts Required for Voltage Levels
	61540 Plant Parts and Components	Sub-accounts Required for Voltage Levels
	61550 Utility Expenses	Sub-accounts Required for Voltage Levels
	61560 Equipment Lease and Rental Expense	Sub-accounts Required for Voltage Levels
	61570 Transportation Expenses	Sub-accounts Required for Voltage Levels
	61580 Communications Expenses	Sub-accounts Required for Voltage Levels
	61590 Depreciation Expense	Sub-accounts Required for Voltage Levels
	61600 Fire Protection Expense	Sub-accounts Required for Voltage Levels
	61610 Office Supplies and Expenses	Sub-accounts Required for Voltage Levels
	61620 Other Lease and Rental Expense	Sub-accounts Required for Voltage Levels
	61630 Travel Expenses	Sub-accounts Required for Voltage Levels
	61640 Insurance	Sub-accounts Required for Voltage Levels
	61650 Training	Sub-accounts Required for Voltage Levels
	61660 Outside Services	Sub-accounts Required for Voltage Levels
	61670 Security	Sub-accounts Required for Voltage Levels
	61680 Workplace Safety	Sub-accounts Required for Voltage Levels
	61690 Other Maintenance Expenses	Sub-accounts Required for Voltage Levels
Administrative Expenses	70000	
	70010 Expenses of Board of Directors	
	70020 Expenses of Control Committee	
	70030 Payroll and Bonuses	
	70040 Employer Social Security and Health Contributions	
	70050 Other Employee Benefits	
	70060 Land Use Fees and Rents	
	70070 Utility Expenses	
	70080 Rent Expenses	
	70090 Transportation Expenses	
	70100 Materials and Supplies	
	70110 Business Travel Expenses	
	70120 Communications Expenses	
	70130 Depreciation Expense	
	70140 Office Supplies and Expenses	
	70150 Travel Expenses	
	70160 Insurance	
	70170 Training	
	70180 Outside Services	
	70190 Security	
	70200 Regulatory Fees	
	70210 Taxes Other Than Income	
	70220 Other Administration Expenses	
Sales Expenses	71000	
	71010 Payroll and Bonuses	
	71020 Employer Social Security and Health Contributions	
	71030 Other Employee Benefits	
	71040 Land Use Fees and Rents	
	71050 Utility Expenses	
	71060 Rent Expenses	
	71070 Transportation Expenses	
	71080 Materials and Supplies	
	71090 Communications Expenses	
	71100 Depreciation	
	71110 Office Supplies and Expenses	
	71120 Travel Expenses	
	71130 Insurance	
	71140 Training	
	71150 Outside Services	
	71160 Security	
	71170 Advertising Expenses	

Billing and Collection	71180 Other Expenses	Sub-ledger required
	71300 Bad Debt Expense	
	71400 Payroll and Bonuses	
	71410 Employer Social Security and Health Contributions	
	71420 Other Employee Benefits	
	71430 Land Use Fees and Rents	
	71440 Utility Expenses	
	71450 Rent Expenses	
	71460 Transportation Expenses	
	71470 Materials and Supplies	
	71480 Communications Expenses	
	71490 Depreciation	
	71500 Office Supplies and Expenses	
	71510 Travel Expenses	
	71520 Insurance	
	71530 Training	
	71540 Outside Services	
	71550 Security	
	71560 Advertising Expenses	
	71570 Other Expenses	
Non-operating Revenues	84000	Sub-accounts as required
	84100 Interest Income	
	84200 Income From Penalties and Fines	
	84300 Dividend Income	
	84400 Foreign Exchange Gain	
	84500 Sales of Materials and Supplies	
	84600 Other Non-operating Revenues	
Non-operating Expenses	87000	Sub-accounts as required
	87100 Interest Expense on Long-term Debt	
	87110 Interest Expense on Short-term Debt	
	87200 Penalties and Fines Paid	
	87400 Foreign Exchange Loss	
	87500 Cost of Materials and Supplies Sold	
	87600 Other Non-operating Expenses	
Income Tax Expense	91000	
Income Summary	92000	